DEPARTMENT OF TAXATION
2013 Fiscal Impact Statement

1. Patron Linda T. Puller

2. Bill Number SB 831
House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee Senate Finance

4. Title Income Tax: Tax Credit for Employing Certain Military Veterans

5. Summary/Purpose:

This bill would allow an individual and corporate income tax credit for each new full-time job that is created and filled by a veteran with an annual salary of at least $50,000. The amount of the tax credit would be equal to $500 for each new full-time job that is filled with a returning military veteran or $1,000 for each new full-time job that is filled with a disabled military veteran. The tax credit would be allowed for the first taxable year in which the job is filled for at least one year and for the four succeeding taxable years, provided the job is continuously filled by a veteran throughout the year. This bill would not allow a tax credit to a taxpayer if its number of full-time jobs for the taxable year is less than the base year employment.

The amount of the credit would not be allowed to exceed the tax liability of the taxpayer. Any unused tax credits may be carried over for five taxable years or until the total amount of the tax credit has been taken, whichever is sooner.

This bill would be effective for taxable years beginning on or after January 1, 2013, but before January 1, 2018.

6. Budget amendment necessary: Yes.
ITEM: Page 1, Revenue Estimates

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

8. Fiscal implications:

Administrative Costs

The Department 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, the Department considers implementation of this bill as “routine,” and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not "routine." Additionally, the Department 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, the Department will identify the costs at that time.

Revenue Impact

This bill would have a potentially significant unknown General Fund revenue loss, beginning in Fiscal Year 2014. According to the Bureau of Labor Statistics, as of August 2011, there were approximately 2.39 million veterans who served in active military duty after September 1, 2001 who subsequently became part of the civilian non-institutional population. On average, approximately 1.4 million military personnel are on active duty. However, it is not known where these particular citizens are located (or will be located once they are discharged from the military). It is likely that a large number of those eligible for this tax credit would be located in Virginia. This is due to the large number of military installations in the Commonwealth, as well as the Virginia's close proximity to Washington, D.C.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Tax Credits

The American Taxpayer Relief Act of 2012 extended two tax credits for helping veterans and wounded veterans find employment until the end of Taxable Year 2013. The Returning Heroes Tax Credit provides businesses that hire unemployed veterans with a maximum tax credit of $5,600 per veteran, and the Wounded Warriors Tax Credit offers businesses that hire veterans with service-connected disabilities a maximum tax credit of $9,600 per veteran.

Tax Credits in Other States

Six other states and the District of Columbia have enacted similar tax credits targeted to employers who hire veterans.

Alaska

Beginning July 1, 2012, Alaska allows a tax credit to employers that hire veterans and employ them in Alaska. The amount of the tax credit is $2,000 for each veteran hired who works at least 1,560 hours within the 12-month period following the date that he was first employed, $3,000 for each disabled veteran hired who works at least 1,560 hours within the 12-month period following the date that he was first employed, and $1,000 for each veteran who works at least 500 hours in a seasonal position within the three-month period following the date that he was first employed.

California

California allows a tax credit to employers that hire qualified employees in an enterprise zone. "Qualified employees" include service-connected disabled veterans, veterans of the Vietnam era, and veterans who were recently separated from military service. The employer may receive a tax credit of up to fifty percent of qualified wages in the first year of employment, forty percent of qualified wages in the second year of employment, thirty percent of qualified wages in the third year of employment, twenty percent of qualified wages in the fourth year of employment, and ten percent of qualified wages in the fifth year of employment. "Qualified wages" equal the portion of wages paid or incurred by the employer during the taxable year to qualified employees that does not exceed one hundred and fifty percent of the minimum wage.

Connecticut

Beginning January 1, 2012, Connecticut allows a job expansion tax credit to be applied against the corporate income tax, the personal income tax, the insurance tax and the utility company tax for hiring an individual on or after January 1, 2012 and prior to January 1, 2014. The tax credit is equal to $500 per month for each new employee, or $900 per month if the employee is a veteran.

Illinois

In Illinois, employers can earn tax credits for the veterans that they have hired since January 1, 2007 who have recently been on active duty overseas. For each taxable year beginning on or after January 1, 2007, and ending on or before December 30, 2010, taxpayers may earn a Veteran's Tax Credit of five percent of total wages paid to each veteran, up to a maximum of $600 annually. For each taxable year beginning on or after January 1, 2010, taxpayers may earn a Veteran's Tax Credit of ten percent of total wages paid to each veteran, up to a maximum of $1,200 annually. The tax 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 documentation showing that they were honorably discharged.

Vermont

In Vermont, a qualified employer was allowed to claim a nonrefundable tax credit equal to $2,000 for each new full-time employee who was a veteran hired after May 24, 2011, but before December 31, 2012, for a position in which the majority of the duties were at a business located in Vermont. This tax credit expired on January 1, 2013.

West Virginia

West Virginia offers a Military Incentive Credit to those who employ eligible individuals for a continuous period of one year. The tax credit is available for each Vietnam or 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 and employed by the taxpayer. The amount of tax credit allowed to an employer is an amount equal to the sum of the following:

- For each Vietnam or Korean Conflict veteran—thirty percent of the employee's wage base, which is the first $5,000 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 $5,000 of wages or compensation paid); and

- For each unemployed member of the West Virginia National Guard or U.S. reserve forces—twenty-five percent of the employee's wage base (the first $5,000 of wages or compensation paid).

District of Columbia
In 2009, the District of Columbia offered a tax credit that was equal to ten percent 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 tax credit could not exceed $5,000 in the aggregate for each qualified veteran who was employed. “Qualified veteran” was defined as 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 six-month National Guard deployment, (e) is a District resident at the time of hiring and maintains District residency for the duration of the two-year tax credit period, and (f) is not currently employed in a facility owned or operated by the District business seeking this tax credit.

<u>Virginia</u>

Major Business Facility Jobs Tax Credit

Individuals, estates, trusts, corporations, banks, and insurance companies may claim a Virginia tax credit if the taxpayer creates at least 50 new full-time jobs in connection with the establishment or expansion of a major business facility, and the company is engaged in a qualifying industry in Virginia. If a taxpayer is located in an enterprise zone or in an economically distressed area (as defined by the Virginia Economic Development Partnership), the threshold is reduced from 50 to 25. Tax credits will be recaptured proportionately if employment decreases during the five years following the initial tax credit year.

This nonrefundable tax credit is equal to $1,000 per each qualifying new job in excess of the 50/25 job threshold and is spread over three years. Effective for taxable years beginning on January 1, 2009, through December 31, 2014 taxpayers are allowed to claim the tax credit amount over two years instead of three.

Green Jobs Tax Credit

Individuals and corporations may claim a tax credit for each new “green job” that is created in Virginia. This nonrefundable tax credit is equal to $500 for each position that is created and that has an annual salary of $50,000 or more. The tax credit is allowed in the first taxable year in which the job is filled for at least one year and for the four succeeding taxable years in which the job is continuously filled. An individual or corporation may claim a tax credit for up to 350 green jobs.

Any taxpayer that is allowed a Green Jobs Tax Credit can still qualify for benefits under the Enterprise Zone Grant Program. However, an individual or corporation is not allowed to claim the Green Jobs Tax Credit and the Major Business Facility Jobs Tax Credit or a federal tax credit for investments in clean energy manufacturing facilities that fosters job creation for the creation of the same job.

Virginia Enterprise Zone Program

The Virginia Enterprise Zone program, administered by the Department of Housing and Community Development, provides two grant programs available to eligible businesses that locate a facility within a designated Virginia Enterprise Zone. The Job Creation Grant program provides grants to eligible businesses for certain permanent full-time job creation exceeding a four job threshold. The Real Property Investment Grant program provides grants for qualified real property investments made in a designated Virginia Enterprise Zone by an eligible individual or business.

<u>Proposal</u>

This bill would allow an individual and corporate income tax credit for each new full-time job that is created and filled by a veteran with an annual salary of at least $50,000. The amount of the tax credit would be equal to $500 for each new full-time job that is filled with a returning military veteran or $1,000 for each new full-time job that is filled with a disabled military veteran. The tax credit would be allowed for the first taxable year in which the job is filled for at least one year and for the four succeeding taxable years, provided the job is continuously filled by a veteran throughout the year. This bill would not allow a tax credit to a taxpayer if its number of full-time jobs for the taxable year is less than the base year employment.

The amount of the tax credit would not be allowed to exceed the tax liability of the taxpayer. Any unused tax credits may be carried over for five taxable years or until the total amount of the tax credit has been taken, whichever is sooner.

To qualify for the tax credit, a taxpayer would be required to demonstrate that the new full-time job was created by the taxpayer and that the job was continuously filled in the Commonwealth during the respective taxable year.

"Base year employment" would mean the average annual number of full-time jobs for which the taxpayer is the employer for the immediately preceding three taxable years of the taxpayer.

"Disabled military veteran" would mean any person who (i) is rated by the U.S. Department of Veterans Affairs or its successor agency pursuant to federal law as having at least a fifty percent service-connected disability and (ii) was unemployed for at least six months in the calendar year immediately preceding the date on which the person was hired to fill a new full-time job.

"Full-time job" would mean a job in the Commonwealth of an indefinite duration, for which the taxpayer is the employer and for which the standard fringe benefits are paid by the taxpayer, requiring a minimum of either (i) 35 hours of an employee's time per week for the entire normal year of such taxpayer's operations, which "normal year" must consist of at least 48 weeks, or (ii) 1,680 hours per year. Seasonal or temporary positions and positions created when a job function is shifted from an existing location in the Commonwealth would not qualify as full-time jobs.

"Returning military veteran" would mean any person who served on active duty on or after September 1, 2001, but would not include any person who first served on active duty on or after January 1, 2015.

"Veteran" would mean a disabled military veteran or a returning military veteran.

A taxpayer would not be allowed this tax credit and the Major Business Facility Job Tax Credit, Green Job Creation Tax Credit, or an Enterprise Zone Job Creation Grant for the same employee or job.

Any tax credits granted to a partnership, limited liability company, or electing small business corporation (S corporation) would be allocated to the individual partners, members, or shareholders, respectively, in proportion to their ownership or interest in such business entities.

This bill would require the Tax Commissioner to develop guidelines, exempt from the provisions of the Administrative Process Act, in order to implement this tax credit.

This bill would be effective for taxable years beginning on or after January 1, 2013, but before January 1, 2018.

cc : Secretary of Finance

Date: 1/12/2013 mth
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