

DEPARTMENT OF TAXATION

2014 Fiscal Impact Statement

1. **Patron** William M. Stanley, Jr.

3. **Committee** Senate Finance

4. **Title** Individual Income Tax: Teacher Relocation
Income Tax Credit

2. **Bill Number** SB 168

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow eligible teachers to claim an income tax credit of \$5,000 for their first year of employment at a qualified school. The credit would be claimed in the taxable year in which the teacher gained employment at a qualified school. The total amount of credits available in any given fiscal year would be capped at \$1 million. Any unused tax credits would be carried over for the next two taxable years.

For purposes of this bill, a “qualified school” would be defined as any public elementary or secondary school in the Commonwealth that (i) has an individual school performance grade of C or below assigned by the Board of Education or (ii) is in a locality with a population of 200,000 or less.

This credit would be effective for taxable years beginning on or after January 1, 2015, but before January 1, 2020.

6. **Budget amendment necessary:** Yes.

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2013-14	\$0	GF
2014-15	\$0	GF
2015-16	(\$1 million)	GF
2016-17	(\$1 million)	GF
2017-18	(\$1 million)	GF
2018-19	(\$1 million)	GF
2019-20	(\$1 million)	GF

8. Fiscal implications:

Administrative Costs – Department of Taxation

The Department of Taxation (“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.

Administrative Costs – Department of Education

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

Revenue Impact

This bill would result in an annual negative revenue impact of \$1 million, beginning in Fiscal Year 2016. The maximum amount of credits that could be issued annually would be \$1 million. The maximum credit amount would be reached once the Department of Taxation certified the annual credit applications of 200 teachers.

According to data from the Department of Education, there are 1,827 public elementary and secondary schools in Virginia. Of these schools, 1,147, or approximately 63 percent, are located in localities with a population of 200,000 or less, and therefore meet the definition of a “qualified school” based on population.

Since the initial letter grades assigned to Virginia's public schools will not be announced until the beginning of the 2014-2015 school year, it is unclear how many additional schools would meet the definition of a “qualified school” based on school performance. Virginia's public schools are currently evaluated using school accreditation ratings. These ratings reflect student achievement on Standards of Learning Assessments and other tests in English, history/social science, mathematics, and science. Ratings are based on the achievement of students on tests taken during the previous academic year and may also reflect a three-year average of achievement. According to the Department of Education's 2013-2014 School Accreditation Ratings, 413 schools failed to achieve a “fully accredited” rating. Assuming that these schools are assigned a grade of C or below by the Department of Education, they would be considered “qualified schools” based on school performance.

There would likely be some overlap between schools that are considered qualified under this bill based on population, and those that are qualified based on school performance. Assuming an equal distribution of low-performing schools among localities, approximately

37 percent of the 413 schools that failed to achieve a “fully accredited” rating, or 153 schools, are located in localities with populations of 200,000 or more. If such schools are assigned a letter grade of C or below, it is estimated that a total of 1,300, or approximately 71 percent, of Virginia’s elementary and secondary public schools would meet the definition of a “qualified school” under this bill. However, depending on the distribution of schools that meet the definition of a “qualified school” based on school performance, the actual number of qualified schools could be higher.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Education

10. Technical amendment necessary: No.

11. Other comments:

Proposed Legislation

This bill would allow eligible teachers to claim an income tax credit for their first year of employment at a qualified school. The credit would be equal to \$5,000 per teacher per year. The credit would be claimed in the taxable year in which the teacher gained employment at the qualified school.

For purposes of the credit, a “qualified school” would be defined as any public elementary or secondary school in the Commonwealth that (i) has an individual school performance grade of C or below assigned by the Board of Education or (ii) is in a locality with a population of 200,000 or less. The Department of Education would be required to publish annually on its website a list of qualified schools.

A “teacher” would be defined as a public elementary or secondary school teacher licensed pursuant to Virginia law who is employed at a qualified school and was not employed at a qualified school during the previous school year.

Tax credits would be issued by the Department of Taxation on a first-come, first-served basis. The total amount of credits that could be granted in any given fiscal year would be capped at \$1 million. Any unused tax credit would be carried over for the next two taxable years. Prior to claiming the credit, teachers would be required to request and receive certification from the Department of Taxation.

This tax credit would be available to eligible teachers in addition to other incentives currently in place for teaching positions in critical shortage areas or at underperforming schools, such as Virginia’s Performance-Pay Incentives Initiative and the Virginia Teaching Scholarship Loan Program.

The Department of Taxation would be required to develop guidelines implementing this bill. Such guidelines would be exempt from the Administrative Process Act.

This credit would be effective for taxable years beginning on or after January 1, 2015, but before January 1, 2020.

cc : Secretary of Finance

Date: 1/19/2014 mjm
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