DEPARTMENT OF TAXATION
2017 Fiscal Impact Statement

1. Patron Emmett W. Hanger, Jr.

2. Bill Number SB 1576
House of Origin:
X **Introduced**
____ **Substitute**
____ **Engrossed**

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

3. Committee Senate Finance

4. Title Extends Sunset Dates for the Worker Retraining and Telework Expenses Tax Credits.

5. Summary/Purpose:

This bill would extend the sunset date for the Worker Retraining Tax Credit from taxable years beginning before January 1, 2018 to taxable years beginning before January 1, 2022.

This bill would also extend the sunset date for the Telework Expenses Tax Credit from taxable years beginning before January 1, 2017 to taxable years beginning before January 1, 2022. This bill would also extend the date before which an employer must enter into a telework agreement with a participating employee to January 1, 2022.

The effective date of this bill is not specified.

6. Budget amendment necessary: Yes.
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7. Fiscal Impact Estimates are: Preliminary. (See Line 8.)
7b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2016-17	$0	GF
2017-18	$0	GF
2018-19	($100,000)	GF
2019-20	($100,000)	GF
2020-21	($100,000)	GF
2021-22	($100,000)	GF
2022-23	($100,000)	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would have an annual negative General Fund revenue impact of $100,000, beginning in Fiscal Year 2019. The extension of the Worker Retraining Tax Credit is assumed in the official General Fund revenue forecast. Under current law, an employer seeking to claim the Telework Expenses Tax Credit must submit an application to the Tax Commissioner for tentative approval of the credit in the year prior to the calendar year in which the eligible telework expenses will be incurred. As this credit currently expires in 2017, no preapplications were processed in 2016, and the official General Fund revenue forecast was adjusted accordingly. If the Telework Expenses Tax Credit is reinstated, the official General Fund revenue forecast would need to be adjusted to reflect an annual negative General Fund revenue impact of $100,000 in Fiscal Year 2019 and thereafter.

The chart below details the amount of Worker Retraining Tax Credit and the Telework Expenses Tax Credits that have been claimed since Fiscal Year 2012.

Fiscal Year	**Worker Retraining Tax Credit**		**Telework Expenses Tax Credit**	
	Number of Returns	Amount Claimed (in millions)	Number of Returns	Amount Claimed (in millions)
FY 2012	10	$0.18	N/A	N/A
FY 2013	Fewer than 4	$0.13	0	$0.00
FY 2014	8	$0.16	7	$0.05
FY 2015	6	$0.16	10	$0.11
FY 2016 (preliminary)	11	$0.23	9	$0.06

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Worker Retraining Tax Credit

The Worker Retraining Tax Credit allows an employer to claim a tax credit against the individual income tax, estates and trusts tax, corporate income tax, bank franchise tax, insurance premiums license tax, and license tax on telegraph, telephone, water, heat, light, power, and pipeline companies, for the costs of providing eligible worker retraining to qualified employees.

“Eligible worker retraining” is defined as the retraining of a qualified employee that promotes economic development in the form of (i) noncredit courses at any of the Commonwealth’s community colleges or a private school or (ii) worker retraining programs undertaken through an apprenticeship agreement approved by the Commissioner of Labor and Industry.

“Qualified employee” is defined as an employee of an employer eligible for the Worker Retraining Tax Credit in a full-time position requiring a minimum of 1,680 hours in the entire normal year of the employer’s operations if the standard fringe benefits are paid by the employer for the employee. Employees in seasonal or temporary positions do not qualify as qualified employees. Further, qualified employees (i) may not be a relative of any owner or the employer claiming the tax credit and (ii) may not own, directly or indirectly, more than five percent in value of the outstanding stock of a corporation claiming the tax credit.

The tax credit is equal to 30 percent of all expenditures paid or incurred by the employer during the taxable year for eligible worker retraining, but cannot exceed $100 per qualified employee per year if the eligible worker retraining consists of courses conducted at a private school. For taxable years beginning on or after January 1, 2013, if the eligible worker retraining consists of courses conducted at a private school, the credit amount is equal to the cost per qualified employee, not to exceed $200 per qualified employee annually, or $300 per qualified employee annually if the eligible worker retraining includes retraining in a STEM or STEAM discipline including but not limited to industry-recognized credentials, certificates, and certifications.

The Department of Taxation may not grant more than $2.5 million in tax credits per fiscal year. The credit is currently set to expire on January 1, 2018.

Telework Expenses Tax Credit

The Telework Expenses Tax Credit is an individual and corporate income tax credit for employers that incur eligible telework expenses. There are two parts to the credit. Employers can claim a credit for eligible telework expenses incurred during the calendar year, not to exceed $1,200 per eligible teleworking employee. Employers can also claim up to $20,000 for the costs of conducting a telework assessment. The total amount of the Telework Expenses Tax Credit claimed by an employer cannot exceed $50,000 in a calendar year. The portion of the credit for conducting a telework assessment can only be claimed once by an employer. The total amount of credits is currently capped at $1 million annually.

To qualify for a credit for eligible telework expenses, the employer must enter into a signed telework agreement with the teleworking employee on or after July 1, 2012, but before January 1, 2017. This telework agreement must be in accordance with policies set by the Department of Rail and Public Transportation.

To receive this credit, taxpayers must submit a reservation application to the Department between September 1 and October 31 of the year preceding the taxable year for which the tax credit is to be earned. If reservation applications for the year exceed the $1 million credit cap, tentative credits are allocated to taxpayers on a pro rata basis. Once an employer has actually incurred eligible expenses, it must submit a final application to the Department in order to an actual credit allocation. If applications for credit allocations exceed the credit cap, the Department allocates credit to taxpayers on a pro rata basis. The amount of credit claimed cannot exceed the tax liability of the taxpayer and unused credit amounts cannot be carried forward to future taxable years. Taxpayers cannot claim this credit if any other income tax credit was also claimed or if the qualified expenses are deducted by the taxpayer in any taxable year.

The credit is currently set to expire on January 1, 2017.

Proposal

This bill would extend the sunset date for the Worker Retraining Tax Credit from taxable years beginning before January 1, 2018 to taxable years beginning before January 1, 2022.

This bill would also extend the sunset date for the Telework Expenses Tax Credit from taxable years beginning before January 1, 2017 to taxable years beginning before January 1, 2022. This bill would also extend the date before which an employer must enter into a telework agreement with a participating employee to January 1, 2022. Because the Telework Expenses Tax Credit was scheduled to expire, credits were not preauthorized for Taxable Year 2017. Accordingly, unless the law is amended to change the existing preapproval requirements, this credit could not be claimed for Taxable Year 2017 even if the sunset date is extended.

The effective date of this bill is not specified.

Similar Legislation

House Bill 1814 is identical to this bill.

House Bill 1959 would provide a tax credit to employers who hired student interns under qualified institutional programs and who make matching contributions to such students' Virginia College Savings Plan.

cc : Secretary of Finance

Date: 1/22/2017 NM
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