

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** David E. Yancey

3. **Committee** House Finance

4. **Title** Worker Retraining Tax Credit; Manufacturing Orientation, Instruction, and Training for Students

2. **Bill Number** HB 129

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would expand the Worker Retraining Tax Credit by allowing a taxpayer primarily engaged in manufacturing to claim an individual income tax or corporate income tax credit equal to 35 percent of its direct costs incurred during the taxable year in conducting orientation, instruction, and training in Virginia relating to the manufacturing activities undertaken by such taxpayer. No taxpayer would be permitted to claim credits in excess of \$2,000 per taxable year.

This bill would be effective for taxable years beginning on or after January 1, 2018, and before January 1, 2022.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

Administrative Costs

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.

Revenue Impact

This bill would have in an unknown negative General Fund revenue impact beginning in Fiscal Year 2019. It is unknown how many taxpayers would conduct orientation, instruction, and training in Virginia relating to manufacturing and, thereby, qualify for the credit. Because the credit is subject to an annual credit cap, the impact of this legislation would not exceed \$2.5 million per taxable year.

Although the Worker Retraining Tax Credit is capped at \$2.5 million annually, the amount of credits currently claimed is significantly below this amount. The following credit amounts were claimed during Fiscal Years 2012 through 2017:

Fiscal Year	Number of Returns	Worker Retraining Tax Credits Claimed
2012	10	\$181,859
2013	Fewer than 4	\$127,744
2014	8	\$158,375
2015	6	\$160,926
2016	11	\$225,596
2017	Fewer than 4	\$234,045

9. Specific agency or political subdivisions affected:

Department of Taxation
Virginia Economic Development Partnership Authority

10. Technical amendment necessary: Yes. As currently drafted, this bill would have two sections Gs. Therefore, the Department suggests the following technical amendment:

Page 2, Line 108
Strike: "G."
Insert: "H."

11. Other comments:

Current Law

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 \$200 per qualified employee per year if the eligible worker retraining consists of courses conducted at a private school, 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 may not grant more than \$2.5 million in tax credits per fiscal year.

“STEM or STEAM discipline” is defined as a science, technology, engineering, mathematics, or applied mathematics related discipline as determined by the Department of Small Business and Supplier Diversity in consultation with the Superintendent of Public Instruction. The term includes a health care-related discipline.

Proposal

This bill would expand the Worker Retraining Tax Credit by allowing a taxpayer primarily engaged in manufacturing to claim an individual income tax or corporate income tax credit equal to 35 percent of its direct costs incurred during the taxable year in conducting orientation, instruction, and training in Virginia relating to the manufacturing activities undertaken by such taxpayer. No taxpayer would be permitted to claim credits in excess of \$2,000 per taxable year.

This credit would only be permitted for programs that:

- Provide orientation, instruction, and training solely to students in grades 6 through 12;
- Are coordinated with the local school division; and
- Are conducted either at a plant or facility owned, leased, rented, or otherwise used by the business or at a public middle or high school in Virginia.

A taxpayer would be permitted to include in its direct costs the following expenditures:

- Salaries or wages paid to instructors and trainers, prorated for the period of instruction or training;
- Costs for orientation, instruction, and training materials;

- Amounts paid for machinery and equipment used primarily for such instruction and training; and
- The cost of lease or rented spaced used primarily for conducting the program.

The credit provided in this bill and the existing Worker Retraining Tax Credit would, in aggregate, be subject to the existing \$2.5 million annual credit cap.

This bill would only permit a taxpayer to claim the credit for an orientation, instruction, and training program that has been approved by the local school division and certified by the Virginia Economic Development Partnership Authority. A business seeking a credit would be required to include an approval from the local school division in its application reviewed by the Virginia Economic Development Partnership Authority. The Virginia Economic Development Partnership Authority would be required to review requests for certification submitted by businesses and advise the Department whether an orientation, instruction, and training program qualifies as relating to the manufacturing activities undertaken by the business and meets the other applicable requirements.

This bill would require the Department to review certifications received from the Virginia Economic Development Partnership Authority. If the Department determines that a taxpayer meets the applicable requirements, it would be required to issue credits to taxpayers to the extent they qualify for the credit.

No business would be eligible to claim a credit for orientation, instruction, and training undertaken by any program operated, administered, or paid for by Virginia.

This bill would amend the definition of “STEM or STEAM discipline” to: a science, technology, engineering, mathematics, or applied mathematics related discipline as *certified* by the Department of Small Business and Supplier Diversity in consultation with the Superintendent of Public Instruction. The term would still include a health care-related discipline.

This bill would also require the Department to promulgate regulations, in accordance with the Administrative Process Act, regarding the existing portion of the Worker Retraining Tax Credit and the credit that would be provided in this bill:

- Establishing procedures for claiming the credit;
- Defining eligible worker retraining, which would include only those courses and programs that are substantially related to the duties of a qualified employee or that enhance the qualified employee’s job-related skills, and that promote economic development; and
- Providing for the allocation of credits among employers and taxpayers requesting credits in the event that the amount of credits for which requests are made exceeds the available amount of credits for any taxable year.

This bill would be effective for taxable years beginning on or after January 1, 2018, and before January 1, 2022.

cc : Secretary of Finance

Date: 1/16/2018 JLOF
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