

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Hala S. Ayala

3. **Committee** House Finance

4. **Title** Income Tax; subtraction for employer payment of qualified education loan

2. **Bill Number** HB 200

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide an individual income tax subtraction to a taxpayer for his or her employer's payment of principal or interest incurred by such taxpayer on any qualified education loans. Such payments are generally included in a taxpayer's federal adjusted gross income ("FAGI") and, thereby, subject to Virginia's individual income tax. The subtraction would be for qualifying amounts paid of up to \$5,250 per taxable year. No subtraction would be permitted for any payments made by employers prior to January 1, 2018.

The effective date of this bill is not specified.

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

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

Administrative Cost

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 an unknown negative General Fund revenue impact beginning in Fiscal Year 2019. It is unknown to what extent taxpayers will qualify for this subtraction by reason of their employers making principal or interest payments on qualified loans on their behalf. Any negative General Fund revenue impact attributable to this bill would be limited by the \$5,250 per taxable year cap on the amount of the subtraction. Accordingly, the maximum revenue impact for each 100 taxpayers qualifying for the subtraction would be \$30,188.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes. To clarify the taxable years when the subtraction can be claimed, the Department suggests the following technical amendment:

Line 186, end of line

Insert: "2. That the provisions of this Act shall be effective for taxable years beginning on and after January 1, 2018."

11. Other comments:

Federal Law

For federal income tax purposes, compensation received from an employer, including principal or interest payments on student loans, is generally includable in a taxpayer's gross income. An exclusion is provided for the receipt of employer-provided educational assistance of up to \$5,250 per year. For purposes of this exclusion, eligible assistance includes payments for tuition, fees, textbooks, supplies, and equipment incurred during the employee's employment. However, this exclusion does not apply to employer-provided education assistance for expenses incurred prior to the employee's employment with that employer, including the payment of student loan interest or principal. Congress has recently considered, but not enacted several legislative proposals that would have excluded payments of student loan interest or principal from federal income taxation.

Virginia Law

Employer Payments of Student Loan Interest or Principal

Virginia generally conforms to federal income tax law and the starting point for computing a taxpayer's Virginia taxable income is his or her FAGI. Virginia does not provide any specific subtractions, credits, or deductions for employer payments of student loan interest or principal. Accordingly, such income is subject to Virginia income taxation to the extent it is included in a taxpayer's FAGI.

Virginia's Subtraction for Discharge of Student Debt by Reason of Death

Virginia allows a subtraction from income for any gain that results from the discharge of a student loan by reason of the student's death, to the extent such gain is included in FAGI. "Student loan" is defined as any loan to an individual to assist the individual in attending an educational organization made by the United States, a State, territory or possession of the United States, a public benefit corporation, or any educational organization.

Proposed Legislation

This bill would provide an individual income tax subtraction to a taxpayer for his or her employer's payment of principal or interest incurred by such taxpayer on any qualified education loans. Such payments are generally included in a taxpayer's FAGI and, thereby, subject to Virginia's individual income tax. The subtraction would be for qualifying amounts paid of up to \$5,250 per taxable year. No subtraction would be permitted for any payments made by employers prior to January 1, 2018.

"Qualified education loan" would be defined as any indebtedness incurred by the taxpayer solely to pay qualified higher education expenses that are:

- Incurred on behalf of the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer as of the time the indebtedness was incurred;
- Paid or incurred within a reasonable period of time before or after the indebtedness is incurred; and
- Attributable to education furnished during a period during which the recipient was an eligible student.

This would also include indebtedness used to refinance indebtedness which qualifies as a qualified education loan. This would not include any indebtedness owed to a person who is related to the taxpayer or to any person by reason of a loan under any qualified employer plan or under a contract purchased under a qualified employer plan.

An employer's payment of principal or interest would be eligible for this subtraction regardless of whether it is paid to the employee or directly to the employee's lender. No subtraction would be permitted for a taxpayer who has claimed any other Virginia subtraction, deduction, or credit for the same payment.

The effective date of this bill is not specified.

cc: Secretary of Finance

Date: 1/26/2018 RWC
HB200F161