

DEPARTMENT OF TAXATION

2020 Fiscal Impact Statement

1. **Patron** Mark L. Cole

2. **Bill Number** HB 158

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax; Deduction for Primary or Secondary School Tuition and Home Instruction Expenses

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide an individual income tax deduction for the amount of education expenses incurred by a parent or guardian of a child under the age of 18. "Education expenses" would be defined as tuition for a primary or secondary school in Virginia, or expenses directly related to the home instruction of children.

This bill would be effective for taxable years beginning on and after January 1, 2020.

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

Item(s): Page 1, Revenue Estimates

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2020-21	(\$80.5 million)	GF
2021-22	(\$82.0 million)	GF
2022-23	(\$84.0 million)	GF
2023-24	(\$86.1 million)	GF
2024-25	(\$88.1 million)	GF
2025-26	(\$90.0 million)	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 estimated negative General Fund revenue impact of \$80.5 million in Fiscal Year 2021; \$82.0 million in Fiscal Year 2022; \$84.0 million in Fiscal Year 2023;

\$86.1 million in Fiscal Year 2024; \$88.1 million in Fiscal Year 2025; and \$90.0 million in Fiscal Year 2026.

According to statistics from the National Center for Education Statistics, during 2018, there were an estimated 823 private schools in Virginia with 105,335 students enrolled. In addition, Private School Review provides that the average private school tuition in Virginia for the 2019-2020 school year was \$14,111.

Data from the Virginia Department of Education indicates that approximately 43,500 children in Virginia are currently being homeschooled. In addition, the Home School Legal Defense Association provides that expenses for homeschooled children average \$758 per year.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

529 Accounts and Primary and Secondary Education Expenses

Taxpayers are permitted to make cash contributions to a qualified tuition program, commonly known as a “529 account,” on behalf of a student or future student. Contributions to 529 accounts are not deductible for federal income tax purposes. In contrast, up to \$4,000 in such contributions are deductible for Virginia income tax purposes each year if made to an account established with the Virginia College Savings Plan. Any earnings on these contributions are tax-free for both federal and Virginia income tax purposes. A distribution under a 529 plan that does not exceed the “qualified higher education expenses” of the designated beneficiary generally is tax-free for both federal and Virginia income tax purposes. Such expenses include tuition, fees, books, etc., required for the enrollment or attendance of a designated beneficiary at an eligible educational institution.

On December 22, 2017, the federal Tax Cuts and Jobs Act modified the term “qualified higher education expenses” to include expenses for tuition in connection with the enrollment or attendance at an elementary or secondary public, private, or religious school. However, this law also limited the amount of cash distributions for elementary and secondary school tuition from all 529 accounts to a single beneficiary to \$10,000 per year.

Proposed Legislation

This bill would provide an individual income tax deduction for the amount of education expenses incurred by a parent or guardian of a child under the age of 18. The deduction would be permitted to be taken only for the taxable year in which such expenses were incurred.

"Education expenses" would be defined as tuition for a primary or secondary school in Virginia, or expenses directly related to the home instruction of children.

The bill would require the Department to develop guidelines setting forth the types of expenses and expenditures that may be deducted.

This bill would be effective for taxable years beginning on and after January 1, 2020.

cc : Secretary of Finance

Date: 1/11/2020 JJS
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