

**DEPARTMENT OF TAXATION
2022 Fiscal Impact Statement**

1. **Patron** Karen S. Greenhalgh
3. **Committee** House Appropriations
4. **Title** Individual Income Tax; Deduction for Eligible Educator Qualifying Expenses

2. **Bill Number** HB 103
House of Origin:
 Introduced
 X **Substitute**
 Engrossed
- Second House:**
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill would provide an individual income tax deduction of up to \$500 for the amount actually paid or incurred for eligible educator qualifying expenses.

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

6. **Budget amendment necessary:** Yes.
Page 1, Revenue Estimates
7. **Impact Estimates are:** Not available. (See Line 8.)
8. **Fiscal implications:**

Administrative Costs

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

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2022. It is uncertain to what extent eligible educators would claim this deduction. The amount of eligible expenses actually paid or incurred by such educators is unknown. In addition, it is uncertain to what extent educators would be ineligible by virtue of having relevant expenses reimbursed or claiming such expenses as a federal income tax deduction. According to data from the Virginia Department of Education, there were 133,660 principals, assistant principals, teachers, teacher aides, and instructors in Virginia as of Fiscal Year 2020. If each of these educators is eligible for the deduction that this bill would provide and claims the maximum of \$500, the negative revenue impact of this portion of this bill would be approximately \$3.5 million.

In addition, the actual number of home schooled students in Virginia is 55,749 in Fiscal Year 2022. However, the corresponding number of home schooling parents that would be eligible for this deduction is unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Income Tax Preferences for Educators

For federal income tax purposes, an eligible educator may deduct up to \$250 of any unreimbursed qualified expenses (otherwise deductible as a trade or business expense). If the taxpayers are married filing jointly and both of them are eligible educators, they may deduct up to \$500, but not more than \$250 each. The educator expense deduction may be claimed above-the-line and therefore can be claimed by educators who claim the standard deduction or elect to claim their itemized deductions. “Qualified expenses” are amounts paid or incurred for books, supplies, computer equipment (including related software and services), other equipment, and supplementary materials used in the classroom. For courses in health and physical education, expenses for supplies are qualified expenses only if related to athletics. This deduction is for expenses paid or incurred during the taxable year.

An “eligible educator” is, with respect to any taxable year, an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

Qualified expenses are deductible only to the extent the amount of such expenses exceed the following amounts for the taxable year:

- The interest on qualified U.S. savings bonds that was excluded from income because the taxpayer paid qualified higher education expenses;
- Any distribution from a qualified tuition program that was excluded from income;
- Any tax-free withdrawals from the taxpayer’s Coverdell education savings accounts; and
- Certain reimbursed expenses.

Before Taxable Year 2018, an educator who had unreimbursed educator expenses in excess of \$250 and who itemized his or her deductions was able to claim such expenses as part of his or her federal miscellaneous itemized deductions. However, such expenses were only deductible if, and to the extent, that the educator’s total miscellaneous itemized deductions (including his unreimbursed expenses for school supplies) exceeded two percent of his or her adjusted gross income. The Tax Cuts and Jobs Act repealed miscellaneous itemized deductions beginning with Taxable Year 2018. The repeal of

miscellaneous itemized deductions is currently scheduled to sunset after December 31, 2025.

Proposed Legislation

This bill would provide an individual income tax deduction of up to \$500 for the amount actually paid or incurred for eligible educator qualifying expenses.

“Eligible educator” would be defined as (i) an individual who for at least 900 hours during the taxable year served as a Virginia licensed teacher, instructor, student counselor, special needs personnel, principal, or student aide for public or private primary and secondary school students in Virginia or (ii) a parent providing home instruction to his or her child in Virginia.

“Qualifying expenses” would be defined as 100 percent of the amount paid or incurred by an eligible educator during the taxable year for participation in professional development courses and the purchase of books, supplies, computer equipment (including related software and services), other educational equipment, and supplementary materials used directly in an individual's service to students as an eligible educator, provided that such purchases were neither reimbursed nor claimed as a deduction on the eligible educator's federal income tax return for such taxable year.

This bill would permit one parent providing home instruction to his or her child per household only to claim the deduction in a taxable year.

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

cc : Secretary of Finance

Date: 2/1/2022 JLOF
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