

DEPARTMENT OF TAXATION

2022 Fiscal Impact Statement

1. **Patron** Mark L. Keam

3. **Committee** Passed House and Senate

4. **Title** Worker Training Tax Credit; Sunset Date and
Changes to Credit Requirements

2. **Bill Number** HB 695

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would generally extend the sunset date of the Worker Training Tax Credit from July 1, 2022 to July 1, 2025. This bill would also extend the sunset date of the portion of the Worker Training Tax Credit that is for a business primarily engaged in manufacturing from January 1, 2022 to January 1, 2025.

Under current law, a business is allowed credits with respect to courses at any institution recognized on the Eligible Training Provider List. This bill would expand the credit by allowing credits with respect to courses at any Virginia public institution of higher education.

If this bill is enacted during the 2022 Regular Session of the General Assembly, it would become effective July 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 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 2023. Because the extension of the sunset dates for the Worker Training Tax Credit is assumed in the official General Fund revenue forecast, those portions of the bill would result in no revenue impact.

The revenue impact of portion of the bill that broadens the definition of eligible worker training is unknown. Because the credit has historically been undersubscribed, this could increase the amount of credits claimed by an unknown amount. The credit is currently subject to an annual credit cap of \$1 million. However, the official General Fund revenue forecast currently

assumes a \$200,000 revenue loss as a result of the existing credit based on historical data. Therefore, any expansion of the eligibility criteria would not have a revenue impact in excess of \$800,000. Given prior utilization, the actual impact of this bill would likely be less than this amount.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

The Worker Training Tax Credit allows business to claim a credit against the individual income tax, estate and trust income tax, corporate income tax, bank franchise tax, insurance premiums license tax, and license tax on telegraph, telephone, water, heat, light, power, and pipeline companies in an amount equal to 35 percent of expenses incurred by the business during the taxable year for eligible worker training. If the recipient of the training is a qualified employee, the credit may not exceed \$500 per qualified employee annually. If the recipient of the training is a non-highly compensated worker, the credit may not exceed \$1,000 per non-highly compensated worker annually.

A business is allowed the credit only for those programs and providers that have been approved for inclusion in the Commonwealth's Eligible Training Provider List, or for instruction or training that is part of an apprenticeship agreement approved by the Department of Labor and Industry. Worker training undertaken by any program operated, administered, or paid for by Virginia is ineligible for the credit.

The Worker Training Tax Credit also allows a business primarily engaged in manufacturing to claim a credit against the individual or corporate income tax in an amount equal to 35 percent of its direct costs incurred during the taxable year in conducting orientation, instruction, and training of certain students in Virginia relating to the manufacturing activities undertaken by the business. No taxpayer is permitted to claim credits on this basis in excess of \$2,000 per taxable year.

A business is allowed the credit only for an orientation, instruction, or training program that has been approved by the local school division and certified as eligible by the Department of Education (DOE). The credit cannot be claimed for manufacturing orientation, instruction, and training undertaken by any program operated, administered, or paid for by Virginia.

The credit is only allowed 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.

For purposes of the credit, direct costs only include:

- Salary and 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 leased or rented space used primarily for conducting the program.

The annual credit cap for the Worker Training Tax Credit is \$1 million in aggregate for both portions of the credit.

The sunset date for the portion of the credit for providing eligible training to qualified workers is currently July 1, 2022. The sunset date for the portion of the credit for manufacturing businesses that conduct orientation, instruction, and training related to manufacturing activities is currently January 1, 2022.

Sunset Date of Income Tax Credits and Sales Tax Exemptions

Pursuant to Item 3-5.14 of the 2020 Appropriations Act, the Department published a report regarding the revenue impact of every sales tax exemption and income tax credit scheduled to expire on or before June 30, 2025. This report included information regarding the Major Business Facility Job Tax Credit. See 2020 Report Document 487.

Proposed Legislation

This bill would generally extend the sunset date of the Worker Training Tax Credit from July 1, 2022 to July 1, 2025. This bill would also extend the sunset date of the portion of the Worker Training Tax Credit that is for a business primarily engaged in manufacturing from January 1, 2022 to January 1, 2025.

Under current law, a business is allowed credits with respect to courses at any institution recognized on the Eligible Training Provider List. This bill would expand the credit by allowing credits with respect to courses at any Virginia public institution of higher education. This would also include courses at the New College Institute, the Roanoke Higher Education Authority, the Southern Virginia Higher Education Center, and the Southwest Virginia Higher Education Center.

If this bill is enacted during the 2022 Regular Session of the General Assembly, it would become effective July 1, 2022.

cc : Secretary of Finance

Date: 3/8/2022 JLOF
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