

DEPARTMENT OF TAXATION

2011 Fiscal Impact Statement

1. **Patron** Phillip P. Puckett

2. **Bill Number** SB 1027

3. **Committee** House Finance

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Income Tax: Temporary Assistance to Needy Families Credit

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would amend the Temporary Assistance to Needy Families (TANF) tax credit by converting it from an appropriated credit program into a capped credit program. The \$3 million cap and approval of qualified employers would be administered by the Department of Taxation.

The bill would be effective for taxable years beginning on and after January 1, 2011.

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

7. **Fiscal 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

The Department of Social Services estimates that there are 77,583 TANF recipients who could be eligible for employment. It is impossible to determine how many of these recipients would be employed by businesses with 100 or fewer employees. In addition, if TANF recipients earn enough from employment, they will become ineligible for TANF benefits. Thus, the negative General Fund revenue impact is not known, but could not exceed \$3 million because the credit is capped.

9. **Specific agency or political subdivisions affected:**

Department of Taxation
Department of Social Services

10. Technical amendment necessary: No.

11. Other comments:

Federal Law

The Work Opportunity Tax Credit allows employers to claim a federal tax credit up to 40% of the first \$6,000 of wages paid to certain targeted individuals during the first year of employment. Targeted individuals eligible for the federal credit include individuals that have received TANF benefits.

Current Law

The TANF tax credit is equal to 5% of each qualifying employee's annual salary, not to exceed \$750. The credit is available against Virginia income tax liability of any individual, estate, trust or corporation that has 100 or fewer employees and employs individuals receiving TANF benefits. The credit is not refundable but unused credits can be carried forward for three taxable years. Credits allowed to a partnership, S corporation or limited liability company are passed through to the partners, shareholders, and members respectively.

TANF credits can only be granted out of funds appropriated from the General Fund. Employers seeking the credit or the grant must apply to the Department of Social Services, which is responsible for establishing procedures for claiming the tax credit. Although this credit has been available since 1999, no funds have ever been appropriated for taxpayers to claim it.

Proposal

Under this bill, the TANF credit would be converted from an appropriated credit into a capped credit program. The Department of Taxation would be responsible for administering the \$3 million cap. If the amount of TANF tax credits requested and approved in a Fiscal Year exceeds \$3 million, the Department of Taxation would prorate TANF tax credits among the approved qualified business employers.

A qualified business employer would be required to apply to the Department of Taxation for TANF tax credits. As part of the application, a qualified business employer would be required to provide written evidence, satisfactory to the Tax Commissioner, with regard to the employment of qualified employees during a taxable year.

The bill would also shift responsibility for determining whether employers qualify for the credit from the Department of Social Services, which administers the TANF program, to the Department of Taxation.

This bill would be effective for taxable years beginning on and after January 1, 2011.

cc : Secretary of Finance

Date: 2/10/2011 TG
SB1027FE161