

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** Mark L. Keam

3. **Committee** House Finance

4. **Title** Income Tax: Credit for Employing Certain
Military Veterans

2. **Bill Number** HB 1041

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow an individual and corporate income tax credit for each new full-time job created and filled by a veteran with an annual salary of at least \$50,000. The amount of the credit would be equal to \$500 for each new full-time job that is filled with a returning military veteran, or \$1,000 if the new full-time job that is filled with a disabled military veteran. The tax credit would be allowed in the first taxable year in which the job had been filled for at least one year, and for the four succeeding taxable years, provided the job is filled throughout the year. This bill would not allow a tax credit to a taxpayer if its number of full-time jobs for the taxable year is less than the base year employment.

The amount of these credits would not be allowed to exceed the tax liability of the taxpayer. Any unused credits would not be allowed to be carried over or back to another taxable year.

This bill would be effective for taxable years beginning on or after January 1, 2012, but before January 1, 2017.

6. **Budget amendment necessary:** Yes.
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7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

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 a potentially significant unknown General Fund revenue loss. According to the Department of Defense, as of September 2011 there were approximately 1.43 million military personnel on active duty and about 2.45 million veterans who served in active military duty after September 1, 2001. However, it is not known where these particular citizens are located (or will be located once they are discharged from the military). It is likely that a large number of those eligible for this credit would be located in Virginia. This is due to the large number of military installations in the Commonwealth, as well as the Virginia's close proximity to Washington, D.C.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal

The American Jobs Act that was enacted November 21, 2011, included two tax credits for helping veterans and wounded veterans find employment. The Returning Heroes Tax Credit provides businesses that hire unemployed veterans with a maximum credit of \$5,600 per veteran, and the Wounded Warriors Tax Credit offers businesses that hire veterans with service-connected disabilities with a maximum credit of \$9,600 per veteran.

Other States

The Department identified four other states and the District of Columbia that have similar tax credits targeted to employers who hire veterans.

Connecticut

Beginning January 1, 2012, Connecticut allows a job expansion credit to be applied against the corporate income tax, the personal income tax, the insurance tax and the utility company tax for hiring an individual on or after January 1, 2012 and prior to January 1, 2014. The credit is equal to \$500 per month for each new employee, or \$900 per month if the employee is a veteran.

Illinois

In Illinois, employers can earn tax credits for the veterans they have hired since January 1, 2007 who have recently been on active duty overseas. Employers can earn the Veteran's Tax Credit of 5% of total wages paid, up to a maximum of \$600 annually, for wages paid to each veteran. The credit is available for veterans who (1) were members of the U.S. Armed Forces, members of the Illinois National Guard, or members of any

reserve component of the U.S. Armed Forces; (2) served on active duty in connection with Operation Desert Storm, Operation Enduring Freedom, or Operation Iraqi Freedom; and (3) have provided documentation showing that they were honorably discharged.

West Virginia

West Virginia offers a Military Incentive Credit to those who employ eligible individuals for a continuous period of one year. The credit is available for each Vietnam and Korean Conflict economically disadvantaged veteran, disabled veteran or unemployed member of the West Virginia National Guard or of the United States Reserve who is a West Virginia resident, who is employed by the taxpayer. The amount of credit allowed to an employer is an amount equal to the sum of the following:

- For each Vietnam or Korean Conflict veteran— 30% of the employee's wage base, which is the first \$5000 in wages or compensation actually paid the employee;
- For each disabled veteran—the percentage of disability (as determined by the U.S. Department of Veterans Affairs) multiplied by the employee's wage base (the first \$5000 of wages or compensation paid); and
- For each unemployed member of the West Virginia National Guard or U.S. reserve forces—25% of the employee's wage base (the first \$5000 of wages or compensation paid).

District of Columbia

The District of Columbia used to offer a recently expired tax credit that was equal to 10% of the wages paid by the employer to a qualified veteran during the first two years in which the employer employs the qualified veteran. The credit could exceed \$5,000 in the aggregate for each qualified veteran who is employed. "Qualified veteran" was defined as an individual subject to the District's personal income tax who: (a) has previously served in a branch of the Armed Forces and who was honorably or generally discharged, (b) is not currently employed in a facility owned or operated by the District business with an exemption, (c) is hired to fill a position of indefinite duration consisting of a minimum of 35 hours per week for not less than 48 weeks per year, (d) is hired within five years after being discharged from the Armed Forces or within two years of a continuous 6-month National Guard deployment, (e) is a District resident at the time of hiring and maintains District residency for the duration of the 2-year tax credit period, and (f) is not currently employed in a facility owned or operated by the District business seeking this tax credit.

Vermont

In Vermont, beginning May 24, 2011, a qualified employer may claim a nonrefundable credit equal to \$2,000 for each new full-time employee who is a veteran hired after May 24, 2011, but before December 31, 2012, for a position in which the majority of the duties are at a business located in Vermont.

Virginia

Major Business Facility Jobs Tax Credit

Individuals, estates, trusts, corporations, banks, and insurance companies may claim a Virginia tax credit if the taxpayer creates at least 50 new full-time jobs in connection with the establishment or expansion of a major business facility, and the company is engaged in a qualifying industry in Virginia. If a taxpayer is located in an enterprise zone or in an economically distressed area (as defined by the Virginia Economic Development Partnership), the threshold is reduced from 50 to 25. Credits will be recaptured proportionately if employment decreases during the five years following the initial credit year.

This nonrefundable credit is equal to \$1,000 per each qualifying new job in excess of the 50/25 job threshold and is spread over three years. Effective for taxable years beginning on January 1, 2009, through December 31, 2012, taxpayers are allowed to claim the credit amount over two years instead of three.

Green Jobs Tax Credit

Individuals and corporations may claim a credit for each new "green job" that is created in Virginia. The nonrefundable credit is equal to \$500 for each position that is created and that has an annual salary of \$50,000 or more. The tax credit is allowed in the first taxable year in which the job had been filled for at least one year, and for the four succeeding taxable years in which the job is continuously filled. An individual or corporation may claim a credit for up to 350 green jobs.

Any taxpayer that is allowed a green jobs tax credit can still qualify for benefits under the Enterprise Zone Grant Program. However, an individual or corporation is not allowed to claim the Green Jobs Tax Credit and the Major Business Facility Jobs Tax Credit or a federal tax credit for investments in clean energy manufacturing facilities that fosters job creation for the creation of the same job.

Virginia Enterprise Zone Program

The Virginia Enterprise Zone program, administered by the Department of Housing and Community Development, provides two grant programs available to eligible businesses that locate a facility within a designated Virginia Enterprise Zone. The Job Creation Grant program provides grants to eligible businesses for certain permanent full-time job creation exceeding a four job threshold. The Real Property Investment Grant program provides grants for qualified real property investments made in a designated Virginia Enterprise Zone by an eligible individual or business.

Proposal

This bill would allow an individual and corporate income tax credit for each new full-time job created and filled by a veteran with an annual salary of at least \$50,000. The amount of the credit would be equal to \$500 for each new full-time job that is filled with a returning military veteran, or \$1,000 if the new full-time job that is filled with a disabled military veteran. The tax credit would be allowed in the first taxable year in which the job had been filled for at least one year, and for the four succeeding taxable years, provided the job is filled throughout the year. This bill would not allow a tax credit to a taxpayer if its number of full-time jobs for the taxable year is less than the base year employment.

The amount of these credits would not be allowed to exceed the tax liability of the taxpayer. Any unused credits would not be allowed to be carried over or back to another taxable year.

To qualify for the tax credit, a taxpayer would be required to demonstrate that the new full-time job was created by the taxpayer, and that the job was continuously filled in the Commonwealth during the respective taxable year.

"Base year employment" means the average annual number of full-time jobs for which the taxpayer is the employer for the immediately preceding three taxable years of the taxpayer.

"Disabled military veteran" means any person who (i) is rated by the U.S. Department of Veterans Affairs or its successor agency pursuant to federal law as having at least a 50 percent service-connected disability, and (ii) was unemployed for at least six months in the calendar year immediately preceding the date on which the person was hired to fill a new full-time job.

"Full-time job" means a job in the Commonwealth of an indefinite duration, for which the taxpayer is the employer and for which the standard fringe benefits are paid by the taxpayer, requiring a minimum of either (i) 35 hours of an employee's time per week for the entire normal year of such taxpayer's operations, which "normal year" must consist of at least 48 weeks, or (ii) 1,680 hours per year. Seasonal or temporary positions and positions created when a job function is shifted from an existing location in the Commonwealth shall not qualify as full-time jobs.

"Returning military veteran" means any person who served on active duty on or after September 1, 2001, but not including any person who first served on active duty on or after January 1, 2015.

"Veteran" means a disabled military veteran or a returning military veteran.

A taxpayer would not be allowed this tax credit and the Major Business Facility Job Tax Credit, Green Job Creation Tax Credit, or an Enterprise Zone Job Creation Grant for the same employee.

Any credits granted to a partnership, limited liability company, or electing small business corporation (S corporation) would be allocated to the individual partners, members, or

shareholders, respectively, in proportion to their ownership or interest in such business entities.

This bill would require the Tax Commissioner to develop guidelines, exempt from the provisions of the Administrative Process Act, to implement this credit.

In addition, this bill contains an enactment clause that would require the Department of Taxation to provide a written report to the General Assembly detailing (i) the number of taxpayers that claimed a tax credit for taxable years 2012 through 2015; (ii) the total amount credits claimed for each taxable year; and (iii) a statement explaining the public policy for the establishment of the credit. The report would be due to the General Assembly in December of 2016

This bill would be effective for taxable years beginning on or after January 1, 2012, but before January 1, 2017.

Similar Bills

House Bill 111 would grant an individual or corporate income tax credit, equal to \$1,000, for each new full-time job, up to 50, that a small business creates in Virginia.

House Bill 131 would allow an individual income tax credit to a veteran with a military service-connected disability. The tax credit would be computed by multiplying the veteran's federal adjusted gross income by his disability rating for the taxable year. If the veteran is totally disabled, then the disability rating would be 100 percent.

House Bill 191 would allow a corporate or individual income tax credit, equal to \$2,500, to a small business for each new job it creates in Virginia and fills with a graduate of a Virginia college or university.

House Bill 720 would increase the worker retraining tax credit for worker retraining courses taken by employees at private schools from a maximum of \$100 per year per employee to \$250 per year per employee, and \$500 per year per employee if the worker retraining includes retraining in a STEM or STEAM (science, technology, engineering, mathematics, or applied mathematics) discipline or a healthcare related discipline.

House Bill 1049 would create an individual and corporate income tax credit for taxpayers employing persons in STEM internship positions in the Commonwealth. The credit would be equal to 25 percent of the wages or salary paid to the intern. The total amount of tax credits that may be allocated in a fiscal year would be limited to \$2 million.

House Bill 1050 would create an individual and corporate income tax credit for taxpayers employing former military persons in STEM internship positions in the Commonwealth. The credit would be equal to 25 percent of the wages or salary paid to the intern. The total amount of tax credits that may be allocated in a fiscal year would be limited to \$2 million.

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