

DEPARTMENT OF TAXATION 2014 Fiscal Impact Statement

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| 1. Patron William M. Stanley, Jr. | 2. Bill Number <u>SB 269</u> |
| | House of Origin: |
| 3. Committee Passed House and Senate | <u> </u> Introduced |
| | <u> </u> Substitute |
| | <u> </u> Engrossed |
| 4. Title Tax Credit for Donations to Scholarship Foundations | Second House: |
| | <u> </u> In Committee |
| | <u> </u> Substitute |
| | <u> X </u> Enrolled |

5. Summary/Purpose:

This bill would allow taxpayers to claim the Education Improvement Scholarships Tax Credit for the taxable year in which they made monetary or marketable securities donations to qualifying scholarship foundations.

This bill would be applicable to monetary or marketable securities donations made in taxable years beginning on or after January 1, 2014.

- 6. Budget amendment necessary:** No.
- 7. Fiscal Impact Estimates are:** Not available. (See Line 8.)
- 8. Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") and the Department of Education consider implementation of this bill as routine, and do not require additional funding.

Revenue Impact

This bill would eliminate the one-year delay between when an Education Improvement Scholarships Tax Credit is earned and when it may be claimed, thereby creating a one-time revenue shift. Under this bill, taxpayers making donations to qualifying scholarship foundations in Taxable Year 2014 would claim Education Improvement Scholarships Tax Credits on their Taxable Year 2014 tax returns, rather than on their Taxable Year 2015 tax returns. Because the majority of taxpayers claiming tax credits for donations made in Taxable Year 2014 will file their Taxable Year 2014 tax returns in Fiscal Year 2015, the majority of the revenue impact for such tax credits would shift from Fiscal Year 2016 to Fiscal Year 2015. Therefore, this bill would have an unknown negative General Fund revenue impact in Fiscal Year 2015. The introduced Executive Budget assumes \$15 million in FY 2015 and \$20 million in FY 2016; therefore, while the revenue impact is unknown, it is unlikely to exceed the amount assumed in the budget.

If enacted, this bill would not change the timing of when taxpayers that made qualifying donations in Taxable Year 2013 may claim Education Improvement Scholarships Tax Credits. Taxpayers would still claim such credits on their Taxable Year 2014 tax returns. The Department of Education issued Education Improvement Scholarships Tax Credits totaling \$1,187,429 for qualifying donations that occurred during Taxable Year 2013. Based on the limited number and amount of credits issued, it is unlikely the amount of credits claimed on Taxable Year 2014 returns filed during FY 2015 would exceed the credit cap, unless there is a significant increase in the credits issued under the program.

9. Specific agency or political subdivisions affected:

Department of Education
Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Taxpayers are allowed to claim Education Improvement Scholarships Tax Credits equal to 65 percent of the monetary or marketable securities donation they made to a qualifying scholarship foundation. This tax credit may be applied against the Individual Income Tax, Corporate Income Tax, Bank Franchise Tax, Insurance Premiums License Tax, or tax on public service corporations.

Tax credits are awarded to taxpayers on a first-come, first-served basis. The total amount of tax credits available in any given fiscal year is capped at \$25 million. No tax credit is allowed if the monetary donation is less than \$500. No more than \$125,000 in tax credits may be issued to an individual in a taxable year. The \$125,000 limitation does not apply to tax credits issued to any business entity, including a sole proprietorship.

Any tax credits that are not usable for the taxable year in which they are claimed, may be carried over for the next five succeeding taxable years or until the total amount of credit has been taken, whichever is sooner.

A taxpayer must wait to claim the Education Improvement Scholarships Tax Credit until he files a tax return for the taxable year following the year of donation. When the tax credit was enacted by the General Assembly in 2012, it was estimated that the decrease in revenues from issuing tax credits may be partially offset by a decrease in education expenditures as a result of students enrolling in private schools, rather than the public school system.

Almost all of Virginia's other tax credits may be claimed by taxpayers for the taxable year in which they become eligible for the tax credit. For example, a taxpayer that makes a qualifying donation for purposes of the Neighborhood Assistance Act Tax Credit in Taxable Year 2014 may claim such tax credit on his tax return for Taxable Year 2014.

Proposed Legislation

This bill would allow taxpayers to claim the Education Improvement Scholarships Tax Credit for the taxable year in which they made monetary or marketable securities donations to qualifying scholarship foundations. This would allow taxpayers that made qualifying donations during Taxable Years 2013 and 2014 to claim credits on their Taxable Year 2014 tax returns.

This bill would specify that the five-year carryover period would begin with the first taxable year succeeding the taxable year in which the tax credit was first allowed.

This bill would be applicable to monetary or marketable securities donations made in taxable years beginning on or after January 1, 2014.

cc : Secretary of Finance

Date: 3/4/2014 MTH
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