

DEPARTMENT OF TAXATION

2016 Fiscal Impact Statement

1. **Patron** David E. Yancey

3. **Committee** House Finance

4. **Title** Income Tax; Modify the Worker Retraining
Tax Credit

2. **Bill Number** HB 508

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would modify the Worker Retraining Tax Credit by allowing an individual and corporate income tax credit in addition to the existing credit for businesses that are primarily engaged in manufacturing. The amount of the additional credit would equal 35 percent of the direct costs incurred during the taxable year in conducting orientation, instruction, and training in Virginia relating to the manufacturing activities undertaken by a business. No business would be allowed an additional credit in excess of \$2,000 for any taxable year.

The new credit would be effective for taxable years beginning on or after January 1, 2016, but before January 1, 2018.

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

7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

8. **Fiscal implications:**

Administrative Cost

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

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2017. Although the Worker Retraining Tax Credit is capped at \$2.5 million per fiscal year, the amount of credits currently claimed is significantly below this amount. During Fiscal Years 2014 and 2015, taxpayers claimed \$158,375 and \$160,926 worth of credits, respectively. The Department anticipates that this bill would allow more taxpayers to qualify for the credit and thereby increase the amount of credits claimed. Because the extent to which businesses primarily engaged in manufacturing would qualify for the

additional credit and claim such credit is uncertain, the negative revenue impact of this bill is unknown.

9. Specific agency or political subdivisions affected:

Department of Small Business and Supplier Diversity
Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

The Worker Retraining Tax Credit is a credit allowed to employers against the individual income tax, estates and trusts tax, corporate income tax, bank franchise tax, insurance premiums license tax, and the license tax on telegraph, telephone, water, heat, light, power, and pipeline companies, for the costs of providing eligible worker retraining to qualified employees. The amount of the credit is equal to 30 percent of all expenditures paid or incurred by the employer during the taxable year for eligible worker retraining. The amount of the credit cannot exceed \$200 per qualified employee per year if the eligible worker retraining consists of courses conducted at a private school, or \$300 per year per qualified employee if the worker retraining includes retraining in a STEM or STEAM discipline.

The credit is capped at \$2.5 million per fiscal year. The credit is currently set to expire on January 1, 2018.

Proposed Legislation

This bill would modify the Worker Retraining Tax Credit by allowing an individual and corporate income tax credit in addition to the existing credit for businesses that are primarily engaged in manufacturing. The amount of the additional credit would equal 35 percent of the direct costs incurred during the taxable year in conducting orientation, instruction, and training in Virginia relating to the manufacturing activities undertaken by a business. No business would be allowed an additional credit in excess of \$2,000 for any taxable year. The new credit would be effective for taxable years beginning on or after January 1, 2016, but before January 1, 2018.

Programs that would qualify for the credit would be required to:

- Provide orientation, instruction, and training solely to students in grades six through twelve;
- Be coordinated with the local school division; and
- Be conducted during school hours at a plant or facility owned, leased, rented, or otherwise used by the business.

Direct costs that would qualify for the credit would include:

- Salaries or 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.

A business would only be allowed to claim the additional credit for an orientation, instruction, and training program that has been approved by the local school division and the Department of Small Business and Supplier Diversity. A business seeking the additional credit would be required to include in its application reviewed by the Department of Small Business and Supplier Diversity a certification from the local school division approving the program. The Department of Small Business and Supplier Diversity would be required to inform the Tax Commissioner of the orientation, instruction, and training programs that qualify for the credit.

This bill would prohibit any employer or business from claiming the existing credit or the additional credit for worker retraining or manufacturing orientation, instruction, and training undertaken by any program operated, administered, or paid for by the Commonwealth.

The Tax Commissioner would be required to promulgate regulations, in accordance with the Administrative Process Act:

- Establishing procedures for claiming the existing credit and the additional credit;
- Defining eligible worker retraining, which would include only those courses and programs that are substantially related to the duties of a qualified employee or that enhance the qualified employee's job-related skills, and that promote economic development; and
- Providing for the allocation of credits among employers and businesses requesting credits in the event that the amount of credits for which requests are made exceeds the available amount of credits in any year.

A taxpayer would be allowed to claim the existing credit and the additional credit for the same taxable year to the extent that they qualify for both credits. The existing and additional credits would, in aggregate, be capped at \$2.5 million per fiscal year.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 2/1/2016 MTH
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