

DEPARTMENT OF TAXATION

2017 Fiscal Impact Statement

1. **Patron** David E. Yancey

3. **Committee** House Finance

4. **Title** Income Tax; Worker Retraining Tax Credit;
Student Internships; College Savings Plan
Contributions

2. **Bill Number** HB 1959

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would expand the Worker Retraining Tax Credit so that it could be claimed in an amount equal to \$1,000 for each student intern hired by the employer for a qualified internship program. This bill would also allow employers to claim the Worker Retraining Tax Credit for any matching contribution made by the employer during the taxable year for a prepaid tuition contract or savings trust account entered into with the Virginia College Savings Plan on behalf of a student intern. A credit for a matching contribution would be limited to 30% of such matching contribution or \$1,000, whichever amount is less.

This bill would also extend the expiration date of this tax credit from January 1, 2018 to January 1, 2022.

The effective date of this bill is not specified.

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

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

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine, and does not require additional funding. The Department understands that the Department of Small Business and Supplier Diversity could possibly incur costs as a result of this bill. However, the full impact has not yet been determined.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2018. According to the Virginia Department of Education and the Virginia Department of Career and Technical Education, there were 190,683 students enrolled in STEM programs during Fiscal Year 2015. It is unknown how many of these students

work as interns in the fields of electrical work, engineering, manufacturing, or mechanical work. It is also unknown how many employers would claim this credit as a result of hiring student interns or for making matching contributions to their Virginia529 accounts.

Although this tax credit is capped at \$2.5 million annually, the amount of tax credits currently claimed is significantly below this amount. The following credit amounts were claimed during Fiscal Years 2012 through 2016:

Fiscal Year	Number of Returns	Worker Retraining Tax Credits Claimed
2012	10	\$181,859
2013	Fewer than 4	\$127,744
2014	8	\$158,375
2015	6	\$160,926
2016 (preliminary)	11	\$225,596

Because the provision of this bill extending the sunset date for the Worker Retraining Tax Credit is assumed in the official General Fund revenue forecast, it would have no General Fund Revenue impact.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Small Business and Supplier Diversity
Virginia School Divisions
Virginia Community Colleges

10. Technical amendment necessary: No.

11. Other comments:

Worker Retraining Tax Credit

The Worker Retraining Tax Credit allows an employer to claim a tax credit against the individual income tax, fiduciary 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, for the costs of providing eligible worker retraining to qualified employees.

"Eligible worker retraining" is defined as the retraining of a qualified employee that promotes economic development in the form of (i) noncredit courses at any of the Commonwealth's community colleges or a private school or (ii) worker retraining programs undertaken through an apprenticeship agreement approved by the Commissioner of Labor and Industry.

“Qualified employee” is defined as an employee of an employer eligible for the Worker Retraining Tax Credit in a full-time position requiring a minimum of 1,680 hours in the entire normal year of the employer’s operations if the standard fringe benefits are paid by the employer for the employee. Employees in seasonal or temporary positions do not qualify as qualified employees. Further, qualified employees (i) may not be a relative of any owner or the employer claiming the tax credit and (ii) may not own, directly or indirectly, more than five percent in value of the outstanding stock of a corporation claiming the tax credit.

"Qualified employee" is defined as an employee of an employer eligible for the Worker Retraining Tax Credit in a full-time position requiring a minimum of 1,680 hours in the entire normal year of the employer's operations if the standard fringe benefits are paid by the employer for the employee. Employees in seasonal or temporary positions do not qualify as qualified employees. Further, a qualified employee (i) may not be a relative of any owner or the employer claiming the credit and (ii) may not own, directly or indirectly, more than five percent in value of the outstanding stock of a corporation claiming the credit.

The tax credit is equal to 30 percent of all expenditures paid or incurred by the employer during the taxable year for eligible worker retraining, but cannot exceed \$200 per qualified employee per year if the eligible worker retraining consists of courses conducted at a private school or \$300 per qualified employee annually if the eligible worker retraining includes retraining in a STEM or STEAM discipline including but not limited to industry-recognized credentials, certificates, and certifications. The Department of Taxation may not grant more than \$2.5 million in tax credits per fiscal year.

“STEM or STEAM discipline” is defined as a science, technology, engineering, mathematics, or applied mathematics related discipline as determined by the Department of Small Business and Supplier Diversity in consultation with the Superintendent of Public Instruction. The term includes a health care-related discipline.

Proposed Legislation

This bill would expand the Worker Retraining Tax Credit so that it could be claimed in an amount equal to \$1,000 for each student intern hired by the employer for a qualified internship program. An employer would be allowed a credit only for an internship that has been approved by a school division or community college of the Commonwealth and the Department of Small Business and Supplier Diversity. An employer would be required to obtain certification of such approval and provide such certification to the Tax Commissioner. No credit would be allowed for (i) more than once for the same student intern or (ii) for any student intern that the employer hired prior to July 1, 2017.

"Student intern" would be defined as a full-time student at a high school or a public or private institution of higher education.

"Qualified internship program" would be defined as an internship that meets the following requirements: (i) the student intern works for the employer at least 20 hours per week for at least 10 consecutive weeks; (ii) the employer pays the student intern at least the minimum wage required by law; (iii) the student intern receives training in job-related skills

that are essential in the employer's field of employment; and (iv) such training is in the field of electrical work, engineering, manufacturing, or mechanical work.

This bill would also allow employers to claim the Worker Retraining Tax Credit for any matching contribution made by the employer during the taxable year for a prepaid tuition contract or savings trust account entered into with the Virginia College Savings Plan on behalf of a student intern. A credit for a matching contribution would be limited to 30% of such matching contribution or \$1,000, whichever amount is less. No credit would be allowed if (i) the student intern made his contribution before the employer hired him or (ii) any employer previously claimed a credit for a matching contribution based on the same contribution by the student intern.

"Matching contribution" would be defined as an expenditure made by an employer for a prepaid tuition contract or savings trust account entered into with the Virginia College Savings Plan on behalf of a student intern. Such expenditure would be equal to the amount contributed by the student intern to the prepaid tuition contract or savings trust account during the taxable year in which the employer makes such expenditure.

This bill would also extend the expiration date of this tax credit from January 1, 2018 to January 1, 2022.

The effective date of this bill is not specified.

Similar Bills

House Bill 1814 would extend the sunset date for the Worker Retraining Tax Credit from taxable years beginning before January 1, 2018 to taxable years beginning before January 1, 2022 and would also extend the sunset date for the Telework Expenses Tax Credit from taxable years beginning before January 1, 2012 to taxable years beginning before January 1, 2022.

cc : Secretary of Finance

Date: 1/19/2017 JJS
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