

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Hala S. Ayala

3. **Committee** House Finance

4. **Title** Individual Income Tax; Teacher Expenses
Tax Credit

2. **Bill Number** HB 624

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide an individual income tax credit of up to \$250 for amounts paid by a qualifying individual for materials used in teaching in Virginia in the taxable year in which the expenses are incurred. The credit would be available, provided that the individual has not been reimbursed for such expenses or claimed a deduction for such expenses on his federal income tax return.

This bill would be effective for taxable years beginning on or after January 1, 2019, but before January 1, 2024.

6. **Budget amendment necessary:** Yes.

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7. **Fiscal Impact Estimates are:** Preliminary

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2017-18	\$0	GF
2018-19	\$0	GF
2019-20	(\$23.12 million)	GF
2020-21	(\$23.12 million)	GF
2021-22	(\$23.12 million)	GF
2022-23	(\$23.12 million)	GF
2023-24	(\$23.12 million)	GF

8. **Fiscal implications:**

Administrative Impact

The Department of Taxation ("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 an estimated annual negative General Fund revenue impact of \$23.12 million beginning in Fiscal Year 2020. Based on the Internal Revenue Service’s Statistics of Income data, an average of 97,677 Virginia taxpayers who filed state income tax returns claimed the federal deduction for educator expenses during Taxable Years 2013 through 2015. This revenue impact assumes that all such taxpayers would instead claim the credit proposed by this bill.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No

11. Other comments:

Federal Income Tax Preferences for Educators

Educator Expense Deduction

For federal income tax purposes, an eligible educator may deduct up to \$250 of any unreimbursed qualified expenses (otherwise deductible as a trade or business expense). If the taxpayers are married filing jointly and both of them are eligible educators, they may deduct up to \$500, but not more than \$250 each. The educator expense deduction may be claimed above-the-line and is not subject to the limitations of unreimbursed employee expenses claimed as an itemized deduction. “Qualified expenses” are amounts paid or incurred for books, supplies, computer equipment (including related software and services), other equipment, and supplementary materials used in the classroom. For courses in health and physical education, expenses for supplies are qualified expenses only if related to athletics. This deduction is for expenses paid or incurred during the taxable year.

An “eligible educator” is, with respect to any taxable year, an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

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An “eligible educator” is, with respect to any taxable year, an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

Qualified expenses are deductible only to the extent the amount of such expenses exceed the following amounts for the taxable year:

- The interest on qualified U.S. savings bonds that was excluded from income because the taxpayer paid qualified higher education expenses,
- Any distribution from a qualified tuition program that was excluded from income
- Any tax-free withdrawals from the taxpayer’s Coverdell education savings accounts, and
- Any reimbursed expenses not reported on box 1 of a taxpayer’s Form W-2.

Both the House and Senate Versions of the Tax Cuts and Jobs Act (Public Law 115-97) would have modified the federal educator expense deduction. However, the enacted bill retained the existing deduction in its current state.

Unreimbursed Employee Business Expenses Deduction

In addition to the federal educator expense deduction, a taxpayer may be able to deduct any surplus part of his unreimbursed expenses for school supplies as an unreimbursed employee business expense on his federal income tax return. However, such expenses are only deductible if, and to the extent, that the educator’s miscellaneous itemized deductions (including his unreimbursed expenses for school supplies) exceed two percent of his FAGI.

Work-Related Education Expenses Deduction

Teachers may also be able to deduct work-related education expenses paid during the year as a federal itemized deduction. Individuals may deduct work-related education expenses that maintain or improve job skills or are required by an employer or law to keep salary, status, or job. However, work-related education expenses may not be deducted if the education is part of a program that will qualify the individual for a new trade or business or the education is needed to meet the minimal educational requirement of the individual’s trade or business.

Virginia Tax Preferences for Educators

Because FAGI is the starting point for computing an individual’s Virginia tax liability, the federal above-the-line deduction for educator expenses is taken into account for Virginia income tax purposes. Additionally, any expenses deductible as an itemized deduction for federal income tax purposes (including a taxpayer’s unreimbursed expenses for school supplies) are generally deductible for Virginia tax purposes.

In addition, Virginia provides a deduction to teachers equal to 20 percent of the tuition cost to attend continuing teacher education courses that are required as a condition of employment. This deduction is available only if the teacher is not reimbursed for the tuition costs and has not claimed a deduction for the payment of the tuition costs on his federal income tax return. Such teacher must be employed as a primary or secondary school teacher licensed.

Virginia provides a sales tax holiday for certain school supplies, including, but not limited to, dictionaries, notebooks, pens, pencils, notebook paper, and calculators. While not aimed specifically at teachers, teachers may benefit from the sales tax holiday.

Sunset Dates for Income Tax Credits and Sales Tax Exemptions

Section 3-5.14 of the 2016-2018 Appropriation Act provides that the General Assembly may not advance the sunset date for any existing income tax credit or sales tax exemption beyond June 30, 2022. Any new income tax credit or sales tax exemption enacted by the General Assembly prior to the 2021 Session must have a sunset date not later than June 30, 2022. This requirement does not apply to sales tax exemptions related to nonprofit entities or to income tax credits or sales tax exemptions with sunset dates after June 30, 2022 that were enacted or advanced during the 2016 Session.

Proposed Legislation

This bill would provide an individual income tax credit of up to \$250 for amounts paid by a qualifying individual for materials used in teaching in Virginia in the taxable year in which the expenses are incurred. The credit would be available, provided that the individual has not been reimbursed for such expenses or claimed a deduction for such expenses on his federal income tax return.

The bill would define a “qualifying individual” as an individual who is a teacher, instructor, counselor, principal, or aide for at least 900 hours during a school year in a school that provides kindergarten, elementary, or secondary education.

“Materials used in teaching” would be defined as books, supplies, computer equipment, including related software and services, and other equipment and supplementary materials, used in the classroom.

This bill would be effective for taxable years beginning on or after January 1, 2019, but before January 1, 2024.

cc: Secretary of Finance

Date: 1/22/2018 RWC
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