

DEPARTMENT OF TAXATION 2020 Fiscal Impact Statement

1. **Patron** Bryce E. Reeves

2. **Bill Number** SB 500

3. **Committee** House Finance

House of Origin:

☐ Introduced

☐ Substitute

☐ Engrossed

4. **Title** Individual Income Tax; Credit for Certain
Teaching Materials

Second House:

☒ In Committee

☐ Substitute

☐ Enrolled

5. **Summary/Purpose:**

This bill would provide an individual income tax credit to licensed teachers in an amount equal to 100 percent of the purchase price of materials used in teaching public primary or secondary school students. The maximum amount of the credit would be limited to \$250 per taxable year. The credit would only be available to the extent that the purchases were neither reimbursed nor claimed as a deduction for federal income tax purposes. The credit would be subject to an annual credit cap of \$1 million.

This bill would be effective for taxable years beginning on or after January 1, 2020, but before January 1, 2025.

This bill would not become effective unless the revenue change reasonably anticipated to result from the implementation of this bill is affirmatively accounted for in the total projected revenues set forth in section 3 of the first enactment of the General Appropriations Act passed by the General Assembly in 2020 that becomes law.

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

Item(s): Page 1, Revenue Estimates
282 and 284, Department of Taxation

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

7a. **Expenditure Impact**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2020-21	\$72,750	1	GF
2021-22	\$70,050	1	GF
2022-23	\$70,050	1	GF
2023-24	\$70,050	1	GF
2024-25	\$70,050	1	GF
2025-26	\$70,050	1	GF

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2020-21	(\$1 million)	GF
2021-22	(\$1 million)	GF
2022-23	(\$1 million)	GF
2023-24	(\$1 million)	GF
2024-25	(\$1 million)	GF
2025-26	(\$1 million)	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) would incur estimated administrative costs of \$72,750 in Fiscal Year 2021 and \$70,050 in Fiscal Year 2022 and in all subsequent fiscal years. These costs would be incurred for purposes of hiring one full-time employee to administer the Department’s responsibilities with respect to the credit, and additional ongoing operational expenses related to overseeing this credit program.

Revenue Impact

This bill would have an annual negative General Fund revenue impact of \$1 million in Fiscal Year 2021 and thereafter. Based on federal Statistics of Income data, 99,520 Virginia taxpayers claimed the federal above-the-line deduction for educator expenses during Taxable Year 2017, at an average of \$251 per return. Therefore, the Department anticipates that applications for the credit this bill would provide would exceed the \$1 million credit cap by a significant amount.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Income Tax Preferences for Educators

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 therefore can be claimed by educators who claim the standard deduction or elect to claim their itemized deductions. “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.

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
- Certain reimbursed expenses.

Before Taxable Year 2018, an educator who had unreimbursed educator expenses in excess of \$250 and who itemized his or her deductions was able to claim such expenses as part of his or her federal miscellaneous itemized deductions. However, such expenses were only deductible if, and to the extent, that the educator’s total miscellaneous itemized deductions (including his unreimbursed expenses for school supplies) exceeded two percent of his or her adjusted gross income. The Tax Cuts and Jobs Act repealed miscellaneous itemized deductions beginning with Taxable Year 2018. The repeal of miscellaneous itemized deductions is currently scheduled to sunset after December 31, 2025.

Virginia Tax Preferences for Educators

Because federal adjusted gross income 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. Because this is an above-the-line deduction, such deduction is taken into account on the Virginia return for educators, regardless of whether they claim a standard deduction or itemize their deductions.

In addition, Virginia provides a deduction to teachers equal to 20 percent of the tuition costs 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 under Virginia law.

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 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 to licensed teachers in an amount equal to 100 percent of the purchase price of materials used in teaching public primary or secondary school students. The maximum amount of the credit would be limited to \$250 per taxable year. The credit would only be available to the extent that the purchases were neither reimbursed nor claimed as a deduction for federal income tax purposes.

The credit would be subject to an annual credit cap of \$1 million. In the event that applications for such credits exceed \$1 million for any taxable year, the Department would be required to allocate the credits on a pro rata basis.

The amount of the credit that may be claimed in any single taxable year would not be allowed to exceed the total amount of Virginia individual income tax imposed for that taxable year. If the amount of the credit allowed under this bill exceeds the taxpayer's tax liability for the taxable year in which the teaching materials were purchased, the amount that exceeds the tax liability would be allowed to be carried over for credit against the taxpayer's individual income taxes in the next five taxable years or until the total amount of the tax credit has been taken, whichever is sooner.

This bill would require that the Tax Commissioner develop guidelines for claiming the credit. Such guidelines would be exempt from the provisions of the Administrative Process Act.

This bill would be effective for taxable years beginning on or after January 1, 2020, but before January 1, 2025.

This bill would not become effective unless the revenue change reasonably anticipated to result from the implementation of this bill is affirmatively accounted for in the total projected revenues set forth in section 3 of the first enactment of the General Appropriations Act passed by the General Assembly in 2020 that becomes law.

cc : Secretary of Finance

Date: 2/13/2020 JJS
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