

**DEPARTMENT OF TAXATION
2022 Fiscal Impact Statement**

1. **Patron** Dave A. LaRock

2. **Bill Number** HB 788

3. **Committee** House Finance

House of Origin:
 Introduced
 Substitute
 Engrossed

4. **Title** Expansion of the Education Improvement Scholarships Tax Credit

Second House:
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill would increase the amount of the Education Improvement Scholarships Tax Credit from 65 percent to 75 percent of the value of a donation of money or marketable securities made to an eligible scholarship foundation.

If this bill is passed during the 2022 General Assembly session, the bill would be effective on July 1, 2022.

6. Budget amendment necessary: Yes.

Item(s): Page 1, Revenue Estimates
Item 135, Department of Education

7. Fiscal Impact Estimates are: Not available. (See Line 8.)

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2022-23	\$109,093	1	GF
2023-24	\$109,093	1	GF
2024-25	\$109,093	1	GF
2025-26	\$109,093	1	GF
2026-27	\$109,093	1	GF
2027-28	\$109,093	1	GF

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2022-23	(\$2 million)	GF
2023-24	(\$2 million)	GF
2024-25	(\$2 million)	GF
2025-26	(\$2 million)	GF
2026-27	(\$2 million)	GF
2027-28	(\$2 million)	GF

8. Fiscal implications:

Administrative Costs

This bill would result in administrative costs to DOE of \$109,093 in Fiscal Year 2023 and each fiscal year thereafter. Such funding would include salary and benefit costs for hiring one full-time employee to vet any additional organizations that may qualify to receive an allocation of credits if this bill is enacted.

The Department of Taxation (“the Department”) considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

This bill would have an estimated negative General Fund revenue impact of \$2 million in Fiscal Year 2023 and thereafter. This credit is subject to an annual credit cap of \$25 million. However, because the credit has long been undersubscribed, the Official General Fund revenue forecast currently assumes a \$13 million revenue loss as a result of the existing credit based on historical data. Increasing the value of the credit from 65 percent to 75 percent of the value of a donation would increase the negative revenue impact of this credit by an estimated \$2 million, for a total of \$15 million per fiscal year.

The following table provides information regarding the amount (in millions) of Education Improvement Scholarships Tax Credits issued for Fiscal Years 2013 through 2021:

Fiscal Year	Credits Issued
2013	\$0.10
2014	\$1.47
2015	\$3.73
2016	\$6.75
2017	\$9.75
2018	\$11.50
2019	\$10.78
2020	\$9.50
2021	\$12.88

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Education

10. Technical amendment necessary: Yes.

As currently drafted, this bill would contain no specified effective date. Therefore, if this bill is enacted, it would be effective on July 1, 2022. However, that would result in the value of the credit increasing during the middle of the calendar year period in which taxpayers may become eligible for the credit through making qualifying donations. This may cause equity issues for taxpayers that make qualifying donations during Taxable Year 2022 as it

appears this would give an increased credit to the portion of taxpayers that donate on or after July 1, 2022. In addition, this difference may be difficult for the Department to administer. A technical amendment is recommended to add a specific effective date for this change and to make it effective for taxable years beginning on or after January 1, 2022.

11. Other comments:

Education Improvement Scholarships Tax Credits

The Education Improvement Scholarships Tax Credit provides an income tax credit to taxpayers equal to 65 percent of value of the monetary or marketable securities donations they made to a qualifying scholarship foundation. Tax credits are awarded to taxpayers on a first-come, first-served basis. DOE is responsible for approving scholarship foundations and allocating Education Improvement Scholarships Tax Credits, and these decisions are final and are not subject to review or appeal. A taxpayer that makes a donation to a scholarship foundation is eligible to receive an income tax credit from that scholarship foundation.

No tax credit is allowed if the 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. In addition, taxpayers may carry forward unused credits for up to five taxable years. The Education Improvement Scholarships Tax Credit is subject to an overall annual credit cap of \$25 million.

Proposed Legislation

This bill would increase the amount of the Education Improvement Scholarships Tax Credit from 65 percent to 75 percent of the value of a donation of money or marketable securities made to an eligible scholarship foundation.

If this bill is passed during the 2022 General Assembly session, the bill would be effective on July 1, 2022.

Similar Bills

Senate Bill 16 would increase the annual cap on the Education Improvement Scholarships Tax Credits from \$25 million to \$50 million, the value of the credit from 65 percent to 80 percent of the value of donations made, and repeal the credit's January 1, 2028 sunset date.

House Bill 982 would increase the value of the Education Improvement Scholarships Tax Credit from 65 percent to 100 percent of the value of a donation made, repeal the credit cap, repeal the required donation thresholds, and make other technical changes to this credit program.

Senate Bill 27 would increase the annual cap on Neighborhood Assistance Act Tax Credit from \$9 million to \$25 million, and expand the availability of the Education Improvement Scholarships Tax Credit.

House Bill 294 would make several changes to the Education Improvement Scholarships Tax Credit to provide scholarships to certain students in need of a safer school environment.

cc : Secretary of Finance

Date: 1/23/2022 RWC
HB788F161