

DEPARTMENT OF TAXATION

2023 Fiscal Impact Statement

1. **Patron** Alfonso H. Lopez

3. **Committee** House Finance

4. **Title** Income Tax; Tax Deduction for Teaching Materials

2. **Bill Number** HB 2065

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would create a tax deduction for up to \$500 of teaching materials purchased by a licensed teacher and used to teach Virginia students enrolled in a public institution of higher education.

This bill would be effective for taxable years beginning on and after January 1, 2023.

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

Item: Page 1, Revenue Estimates

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

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

This bill would have an unknown negative impact on General Fund revenues. The number of instructors in postsecondary public institutions in the Commonwealth who would claim the deduction is unknown. According to the National Center for Education Statistics, there were a total of 876,502 instructional positions in public postsecondary institutions in the United States in 2021. If it is assumed that Virginia's share of such positions is two percent, and that all instructors in Virginia would claim the maximum \$500 deduction at an average effective tax rate of 5.4 percent, the annual revenue impact of this bill would be approximately \$550,000.

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 Deduction for Eligible Educator Qualifying Expenses

During 2022, the General Assembly enacted legislation providing an additional Virginia individual income tax deduction of up to \$500 for the amount actually paid or incurred for eligible educator qualifying expenses. For purposes of this deduction, “eligible educator” is

defined as an individual who for at least 900 hours during the taxable year served as a Virginia licensed teacher, instructor, student counselor, principal, special needs personnel, or student aide serving accredited public or private primary and secondary school students in Virginia. "Qualifying expenses" are defined as 100 percent of the amount paid or incurred by an eligible educator during the taxable year for participation in professional development courses and the purchase of books, supplies, computer equipment (including related software and services), other educational and teaching equipment, and supplementary materials used directly in an individual's service to students as an eligible educator, provided that such purchases were neither reimbursed nor claimed as a deduction on the eligible educator's federal income tax return for such taxable year. This deduction is effective for taxable years beginning on and after January 1, 2022, but before January 1, 2025.

Proposed Legislation

This bill would create a tax deduction for up to \$500 of teaching materials purchased by a licensed teacher and used to teach Virginia students enrolled in a public institution of higher education. For purposes of this deduction, "qualifying institution" would be defined as the Virginia Community College System as a whole and each associate-degree-granting and baccalaureate public institution of higher education in the Commonwealth.

This bill would be effective for taxable years beginning on and after January 1, 2023.

cc : Secretary of Finance

Date: 1/22/2023 SK
HB2065F161