

# DEPARTMENT OF TAXATION

## 2023 Fiscal Impact Statement

1. **Patron** Thomas K. Norment, Jr.
3. **Committee** Senate Finance and Appropriations
4. **Title** Education Improvement Scholarship Tax Credit

2. **Bill Number** SB 1360
- House of Origin:**  
  X   **Introduced**  
      **Substitute**  
      **Engrossed**
- Second House:**  
      **In Committee**  
      **Substitute**  
      **Enrolled**

### 5. **Summary/Purpose:**

This bill would increase the value of the Education Improvement Scholarship Tax Credit from 65 percent to 100 percent of a donation to a scholarship foundation.

This bill would also expand and clarify the definitions of “eligible pre-kindergarten child” and “student” with regards to receiving a scholarship. In addition, this bill would remove the requirement that the parent or guardian of an eligible pre-kindergarten child certify that their child was unable to obtain services through the Virginia Preschool Initiative.

The portion of this bill increasing the value of the Education Improvement Scholarship Tax Credit would be effective for taxable years beginning on and after January 1, 2023, but before January 1, 2028.

If this bill is enacted during the Regular 2023 Session of the General Assembly, the portion of this bill expanding the definition of eligible student would be effective July 1, 2023.

**This is Executive Legislation.**

6. **Budget amendment necessary:** No.
7. **No Fiscal Impact** (See Line 8.)
8. **Fiscal implications:**

#### Administrative Costs

The Department of Taxation (“the Department”) and the Department of Education (“DOE”) consider implementation of this bill as routine, and do not require additional funding.

#### Revenue Impact

This bill would have no impact on General Fund revenues. This credit is currently subject to an annual credit cap of \$25 million. Because the Official General Fund revenue forecast

currently assumes a \$25 million annual revenue loss attributable to this credit, no budget amendment is needed.

**9. Specific agency or political subdivisions affected:**

Department of Taxation  
Department of Education

**10. Technical amendment necessary:** No.

**11. Other comments:**

Education Improvement Scholarships Tax Credit

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 the Education Improvement Scholarships Tax Credit, 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 value of the Education Improvement Scholarship Tax Credit from 65 percent to 100 percent of a donation to a scholarship foundation.

This bill would also change the definition of eligible student with regards to receiving a scholarship by:

- Removing the requirement that eligible pre-kindergarten children be at-risk four-year-olds unable to obtain services through Head Start or Virginia Preschool Initiative programs;
- Requiring that nonpublic pre-kindergarten programs participate in the Unified Virginia Quality Birth to Five System (VQB5), rather than the Virginia Quality rating system; and
- Expanding eligible students to include any school-aged child living in Virginia whose family income does not exceed 300 percent of federal poverty guidelines, regardless of prior public school enrollment or a recent move to Virginia.

The portion of this bill increasing the value of the Education Improvement Scholarship Tax Credit would be effective for taxable years beginning on and after January 1, 2023, but before January 1, 2028. If this bill is enacted during the Regular 2023 Session of the General Assembly, the portion of his bill expanding the definition of eligible student would be effective July 1, 2023.

Similar Legislation

**House Bill 1821** is identical to this bill.

**House Bill 1371** and **House Bill 1396** would establish an Education Saving Account Program, increase the value of the Education Improvement Scholarships Tax Credit from 65 percent to 100 percent of a donation to a scholarship foundation, remove the individual minimum and maximum donation amounts, remove the \$25 million aggregate credit cap, and raise the threshold for students to qualify for scholarships.

**Senate Bill 892** would clarify the definition of student eligible to receive a scholarship.

**Senate Bill 893** would allow a taxpayer entitled to an Education Improvement Tax Credit to transfer such credit to any other taxpayer.

**Senate Bill 1179** would make changes to the definition of student with disability and to the early education program as it relates to the Education Improvement Tax Credit.

cc : Secretary of Finance

Date: 1/22/2023 JLOF  
SB1360F161