

**DEPARTMENT OF TAXATION
2024 Fiscal Impact Statement**

1. **Patron** Geary Higgins

2. **Bill Number** HB 1275

3. **Committee** House Finance

House of Origin:

Introduced

Substitute

Engrossed

4. **Title** Individual Income Tax; Home Instruction and Private School Tax Credit

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

This bill would establish a nonrefundable individual income tax credit for the parents or legal guardians of a child receiving home instruction or attending an accredited private school in Virginia. The credit would be for the costs of:

- Instruction-related materials;
- Courses or programs used in home instruction; or
- Private school tuition.

The credit would be equal to the lesser of: (i) the amount actually paid for such expenses, (ii) half of the average state standards of quality ("SOQ") funding per student per year, or \$2,500. The credit would be available for two years per child.

This bill would be effective for taxable years beginning on and after January 1, 2024, but before January 1, 2029.

6. Budget amendment necessary: Yes.

Item(s): 257 and 258, 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>
2024-25	\$212,037	0	GF
2025-26	\$16,611	0	GF
2026-27	\$13,611	0	GF
2027-28	\$13,611	0	GF
2028-29	\$13,611	0	GF

8. Fiscal implications:

Administrative Costs

This bill would result in administrative costs to the Department of Taxation of \$212,037 in Fiscal Year 2025, \$16,611 in Fiscal Year 2026 and recurring \$13,611 in Fiscal Years 2027-2029. Such

costs would primarily consist of updating and maintaining the Department’s systems to implement the new tax credit that would be provided by this bill.

The Department of Education (“DOE”) considers implementation of this bill to be routine and does not require additional funding.

Revenue Impact

This bill would have unknown significant negative General Fund revenue impact in Fiscal Year 2025 and each year thereafter. According to 2023-2024 data from the Virginia Department of Education, there are currently 53,522 homeschooled students and 150,622 students enrolled in private schools in Virginia. Assuming all those students could be used to qualify for the maximum \$2,500 credit, the revenue loss would be approximately \$510 million annually. However, to the extent that not all taxpayers claiming the credit would have sufficient qualifying expenses to claim the maximum amount, the impact could be less. In addition, this credit may only be claimed for two years per qualifying child, which would further lessen the impact. As a result, the revenue impact of this bill is unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Education

10. Technical amendment necessary: No.

11. Other comments:

529 Accounts and Primary and Secondary Education Expenses

Taxpayers are permitted to make cash contributions to a qualified tuition program, commonly known as a “529 account,” on behalf of a student or future student. Contributions to 529 accounts are not deductible for federal income tax purposes. In contrast, up to \$4,000 in such contributions are deductible for Virginia income tax purposes each year if made to an account established with the Virginia College Savings Plan. Any earnings on these contributions are tax-free for both federal and Virginia income tax purposes. A distribution under a 529 plan that does not exceed the “qualified higher education expenses” of the designated beneficiary generally is tax-free for both federal and Virginia income tax purposes. Such expenses include tuition, fees, books, etc., required for the enrollment or attendance of a designated beneficiary at an eligible educational institution.

On December 22, 2017, the federal Tax Cuts and Jobs Act modified the term “qualified higher education expenses” to include expenses for tuition in connection with the enrollment or attendance at an elementary or secondary public, private, or religious school. However, this law also limited the amount of cash distributions for elementary and secondary school tuition from all 529 accounts to a single beneficiary to \$10,000 per year.

Proposed Legislation

This bill would establish a nonrefundable individual income tax credit for the parents or legal guardians of a child receiving home instruction or attending an accredited private school in Virginia. The credit would be for the costs of:

- Instruction-related materials;
- Courses or programs used in home instruction; or
- Private school tuition.

The credit would be equal to the lesser of: (i) the amount actually paid for such expenses, (ii) half of the average state standards of quality (“SOQ”) funding per student per year, or \$2,500. The credit would be available for two years per child and would be limited to the taxpayer’s Virginia income tax liability. Any amount that exceeds the taxpayer’s Virginia income tax liability could be carried forward for five taxable years or until the entire amount of the credit is used whichever occurs first.

This bill would be effective for taxable years beginning on and after January 1, 2024, but before January 1, 2029.

Similar Legislation

HB 1180 would establish an individual income tax credit for a child receiving home instruction or attending private schools in Virginia equal to either fifty or eighty percent of the state SOQ depending on the taxpayer’s VAGI.

HB 1234 would increase an individual income tax deduction from \$500 to \$1,500 for eligible educator qualifying expenses, and establish an individual income tax credit for amounts paid for a child receiving home instruction of up to \$3,000.

cc : Secretary of Finance

Date: 1/28/2024 SJH
HB1275F161