

# DEPARTMENT OF TAXATION

## 2022 Fiscal Impact Statement

1. **Patron** David A. Reid

3. **Committee** House Finance

4. **Title** Individual Income Tax; Economic  
Development Incentives

2. **Bill Number** HB 858

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would provide a number of individual income tax incentives to qualified knowledge workers who move to Virginia. These incentives are:

- An individual income tax deduction in the amount of 50 percent of the amount paid for high speed internet access up to \$600. If the qualified knowledge worker is a resident of a distressed locality, the amount of the deduction would be 50 percent of the amount paid for high speed internet access up to \$1,200.
- A nonrefundable individual income tax credit for the purchase of a residential electric vehicle charger during the qualifying period. The amount of the credit would be equal to the amount of the federal credit for the purchase of a residential electric vehicle charger. For qualified knowledge workers residing in distressed localities, the amount of the credit would be twice the federal credit.
- A nonrefundable individual income tax credit for the purchase of eligible computer equipment in each taxable year during the qualifying period. The amount of the credit would be equal to the sales tax paid on no more than \$5,000 of eligible computer expenses, or on \$10,000 for knowledge workers residing in a distressed locality.

This bill would be effective for taxable years beginning on and after January 1, 2022, but before January 1, 2028.

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

Item(s): 274 and 276, Department of Taxation

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

**7a. Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2022-23	\$264,695	2	GF
2023-24	\$143,100	2	GF
2024-25	\$143,100	2	GF
2025-26	\$143,100	2	GF
2026-27	\$143,100	2	GF
2027-28	\$143,100	2	GF

**8. Fiscal implications:**

Administrative Costs

The Department of Taxation would incur costs of \$264,695 in FY 2023 and \$143,100 in FY 2024 and thereafter. Such costs would primarily consist of updating the Department's systems to implement the new tax deduction and tax credits that would be provided by this bill and hiring two new full-time employees to administer the deduction and credit.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in FY 2023. The revenue impact is unknown because of the various factors that make it difficult to determine the degree to which the tax deductions and tax credits established by this bill would be used. The factors include the limitation of the incentives to new residents in specific technology fields and the unknown preference to relocate to distressed localities. However, because the tax credits established by this bill would be subject to a \$1 million annual cap, the annual negative General Fund revenue impact of the tax credit portion of this bill would not exceed \$1 million.

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

Department of Taxation

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

**11. Other comments:**

Federal Alternative Fuel Vehicle Refueling Property Credit

Taxpayers are allowed as a credit against their federal income tax in an amount equal to 30 percent of the cost of any qualified alternative fuel vehicle refueling property placed in service by the taxpayer during the taxable year. For property that is subject to an allowance for depreciation (business/investment use property), the credit for all property placed in service at each location is 30 percent of the property's cost up to \$30,000. For property not subject to an allowance for depreciation placed in service at the taxpayer's residence, the credit is 30 percent of the property's cost up to \$1,000.

“Qualified alternative fuel vehicle refueling property” is defined as any property, other than a building or its structural components, used for either of the following:

- To store or dispense an alternative fuel (defined below) other than electricity into the fuel tank of a motor vehicle propelled by the fuel, but only if the storage or dispensing is at the point where the fuel is delivered into that tank; or
- To recharge an electric vehicle, but only if the recharging property is located at the point where the vehicle is recharged.

“Alternative fuels” are defined as:

- Any fuel at least 85% of the volume of which consists of one or more of the following: ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, or hydrogen.
- Any mixture which consists of two or more of the following: biodiesel or kerosene, and at least 20% of the volume of which consists of biodiesel determined without regard to any kerosene in such mixture.
- Electricity.

#### 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, 2025. Any new income tax credit or sales tax exemption enacted by the General Assembly prior to the 2024 Session must have a sunset date not later than June 30, 2025. 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, or to the Motion Picture Production Tax Credit.

#### Proposed Legislation

This bill would provide an individual income tax deduction in the amount of 50 percent of the amount a qualified knowledge worker pays for high speed internet access up to \$600. If the knowledge worker is a resident of a distressed locality, the amount of the deduction would be 50 percent of the amount paid for high speed internet access up to \$1,200.

This bill would also provide a nonrefundable individual income tax credit to qualified knowledge workers for the purchase of a residential electric vehicle charger during the qualifying period. The amount of the credit would be equal to the amount of the federal credit for the purchase of a residential electric vehicle charger. For knowledge workers residing in distressed localities, the amount of the credit would be twice the federal credit.

This bill would also provide a nonrefundable individual income tax credit to qualified knowledge workers for the purchase of eligible computer equipment in each taxable year during the qualifying period. The amount of the credit would be equal to the sales tax paid

on no more than \$5,000 of eligible computer expenses, or on \$10,000 for knowledge workers residing in a distressed locality.

"Distressed locality" would be defined as a locality that has lost more than 10 percent of its population since the 2010 census.

"Eligible computer equipment" would be defined as computers, computer-related hardware and software, modems, data processing equipment, telecommunications equipment, high-speed Internet connectivity equipment, computer security software and devices, and all related delivery, installation, and maintenance fees. "Eligible computer equipment" includes only equipment that is purchased in new condition.

"Federal credit" would be defined as the amount of the federal income tax credit available for the purchase of a residential electric vehicle charger under section 30C of the Internal Revenue Code prior to December 31, 2021.

"Information technology" would be defined as communications, telecommunications, automated data processing, applications, databases, data networks, the Internet, management information systems, and related fields.

"Knowledge worker" would be defined as an individual possessing advanced skills in the field of information technology, including network engineers, software developers, data scientists, and artificial intelligence, machine learning, or quantum computing professionals.

"Qualified knowledge worker" would be defined as a knowledge worker who becomes domiciled in Virginia during the current or previous taxable year. "Qualified knowledge worker" would only include individuals who maintain their domicile in Virginia for at least six months prior to claiming the credit and have not been domiciled in or been a resident of Virginia in the five years prior to the qualifying period.

For purposes of the credit for the purchase of a residential electric car charger, "qualifying period" would be defined for purposes of the as the 12-month period beginning on the date that the qualified knowledge worker establishes his domicile in Virginia. For purposes of the credit for eligible computer equipment, "qualifying period" would be defined as the three-year period beginning on the date that the qualified knowledge worker establishes his domicile in Virginia.

If the amount of credits exceeds the taxpayer's tax liability for the taxable year, the taxpayer would be allowed to carry over the excess for credit against income taxes for the next five years or until the total amount of the tax credits have been taken, whichever occurs first.

A qualified knowledge worker would be eligible to claim either credit, or both. However, no individual would be allowed to claim the credit for the purchase of a residential electric car charger in more than one taxable year. An individual would be allowed to claim the credit for the purchase of eligible computer equipment in more than one taxable year.

The total amount of credits would be capped at \$1 million per taxable year. In each taxable year, the Department would be required to allocate \$500,000 in tax credits for eligible recipients in distressed localities, and the remaining \$500,000 in tax credits for eligible recipients in non-distressed localities. However, if the amount of credits claimed in either distressed localities or non-distressed localities in the taxable year is less than \$500,000, the remaining amount of credits would be allocated to eligible recipients in the other class of localities. If applications for the tax credits exceed \$1 million for any taxable year, the credits would be allocated on a pro rata basis.

This bill would be effective for taxable years beginning on and after January 1, 2022, but before January 1, 2028.

cc : Secretary of Finance

Date: 1/29/2022 JLOF  
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