DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement

1. **Patron** Aaron R. Rouse

2. **Bill Number** SB 971
House of Origin:
X **Introduced**
______ **Substitute**
______ **Engrossed**

Second House:
______ **In Committee**
______ **Substitute**
______ **Enrolled**

3. **Committee** Senate Finance and Appropriations

4. **Title** Income Tax: Second-Chance Employment Tax Credit

5. **Summary/Purpose:**

The bill would establish a nonrefundable tax credit equal to five percent of the wages paid to a qualified employee during the taxable year. The annual amount of the credit that may be claimed by the employer would be limited to $1,250 per qualified employee, or $2,250 for a qualified employee who is on probation or parole.

"Qualified employee" would mean an employee who:

- Earns Virginia sourced wage income from the qualified employer and
- Was convicted of a qualified offense prior to his employment by the qualified employer.

"Qualified offense" would mean

- Any offense classified as a felony or a Class 1 or Class 2 misdemeanor offense in the Commonwealth or
- Any substantially similar offense under the laws of any other state, the District of Columbia, the United States, or its territories.

This bill would become effective for taxable years beginning on or after January 1, 2025, but before January 1, 2030.

6. **Budget amendment necessary:** Yes.
Item(s): Page 1, Revenue Estimates
258 and 260, Department of Taxation

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

7a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2025-26	$447,095	1	GF
2026-27	$107,200	1	GF
2027-28	$88,800	1	GF
2028-29	$88,800	1	GF
2029-30	$88,800	1	GF
2030-31	$88,800	1	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation ("the Department") would incur estimated expenditures, as shown on Line 7a. Such costs would primarily consist of hiring one full-time employee and making system changes to capture and process the relevant information. There would be an ongoing cost of $88,800 per fiscal year associated with the hiring of the full-time employee.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2026, and each fiscal year thereafter. It is unknown how many taxpayers would hire qualifying employees and claim this credit. For these reasons, the amount of revenue loss associated with this bill is unknown. However, because the bill is subject to an annual aggregate cap based upon the amount appropriated in the general appropriation act, any unknown revenue loss would not exceed such cap.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Work Opportunity Tax Credit

The federal Work Opportunity Tax Credit is available to employers for hiring from certain target groups, including certain ex-felons, who have consistently faced significant barriers to employment. To qualify for the credit, the hiring date of an ex-felon cannot be more than one year after their conviction or release from prison. This credit is equal to 25 percent of an ex-felon’s first year wages if they work at least 120 hours, and 40 percent if they work at least 400 hours. Employers may earn a credit of up to $2,400 for each newly hired ex-felon. Virginia generally allows employers to claim a deduction on their Virginia income tax returns for salaries and wages that are eligible for the federal Work Opportunity Tax Credit.

Proposal

The bill would establish a nonrefundable tax credit equal to five percent of the wages paid to a qualified employee during the taxable year. The annual amount of the credit that may be claimed by the employer would be limited to $1,250 per qualified employee, or $2,250 for a qualified employee who is on probation or parole.

“Qualified employee” would mean an employee who

- Earns Virginia sourced wage income from the qualified employer and

- Was convicted of a qualified offense prior to his employment by the qualified employer.

"Qualified offense" would mean

- Any offense classified as a felony or a Class 1 or Class 2 misdemeanor offense in the Commonwealth or
- Any substantially similar offense under the laws of any other state, the District of Columbia, the United States, or its territories.

"Qualified employer" would mean an employer

- Whose business first employs a qualified employee and
- Who adopts and implements a policy for hiring new qualified employees that meets or exceeds the most recent standards described in second-chance hiring guidance published by the Department of Human Resource Management.

The credit may be claimed in the first year that the qualified employer hires a qualified employee and in each subsequent year that such employer continues to employ such qualified employee. The bill would require a qualified employer to provide written evidence, satisfactory to the Tax Commissioner, verifying the employment for the taxable year in which the credit is claimed.

The aggregate amount of tax credits available in any fiscal year would not exceed the amount appropriated for such year as provided in the general appropriation act, and credits would be allocated on a first-come, first-served basis. Any credit not usable for the taxable year may be carried over for the next three taxable years.

Credits granted to a partnership, limited liability company, or S corporation would be allocated to the individual partners, members, or shareholders, respectively, in proportion to their ownership or interest in such business entities.

The bill would require the Tax Commissioner to develop guidelines implementing the provisions of the credit.

This bill would become effective for taxable years beginning on or after January 1, 2025, but before January 1, 2030.

cc: Secretary of Finance

Date: 1/14/2025 SJH
SB971F161