

Instructions for Forms TEL-1 and TEL-2, Telework Expenses Tax Credit Reservation and Confirmation Applications

General Information

The **Telework Expenses Tax Credit** is an individual and corporate income tax credit for employers who

- (1) incur eligible telework expenses pursuant to a telework agreement or
- (2) conduct telework assessments. This credit is equal to the amount of expenses incurred during the calendar year that ends during the taxable year, not to exceed \$50,000 each calendar year.

To qualify for a credit for eligible telework expenses incurred pursuant to a telework agreement, the employer must enter into a signed telework agreement with the teleworking employee on or after July 1, 2012, but before January 1, 2022. This telework agreement must be in accordance with policies set by the Department of Rail and Public Transportation (DRPT). Such policies are available on the Telework!VA website at www.teleworkva.org. The maximum amount of expenses that can be used in determining the amount of this portion of the credit is \$1,200 per employee.

The portion of the credit for telework assessment expenses is equal to the costs of preparing an assessment, not to exceed \$20,000. This portion of the credit can only be claimed once by an employer.

The aggregate amount of tax credits that will be issued is capped at \$1 million annually. If credit applications exceed the \$1 million cap, credits will be allocated on a pro rata basis.

The amount of credit claimed cannot exceed the tax liability of the taxpayer. There is no carryforward of any unused credit. Accordingly, even if a taxpayer is granted a credit amount, he must have sufficient tax liability in order to actually claim the full credit amount. If the amount of credit granted exceeds the taxpayer's tax liability, he may only claim the credit up to the amount of tax liability for the taxable year. To be eligible for this credit, the employer is not allowed to deduct the qualified expenses in any taxable year. If these expenses are deducted for federal purposes, they will need to be included as an addition on your Virginia return. Taxpayers are not eligible for this tax credit if any other Virginia income tax credit is claimed based on the jobs, wages, or other expenses for the same employee.

Taxpayers are required to apply to the Department of Taxation to reserve a portion of the credit. Form TEL-1, Telework Expenses Tax Credit Reservation Application, must be filed between September 1 and October 31 of the year preceding the calendar year in which the eligible telework expenses will be incurred. The Department of Taxation will provide tentative approval by December 31. If the applications for the credit exceed the cap, the credits will be allocated to taxpayers on a pro rata basis.

Taxpayers who received a tentative allocation letter must then confirm the amount of eligible telework expenses actually incurred by filing Form TEL-2, Telework Expenses Tax Credit Confirmation Application. Any taxpayer who actually spends the estimated amount that was listed on Line 4 of Form TEL-1 will be granted a credit equal to or greater than the amount listed in the tentative allocation letter. Taxpayers who spend less than the amount estimated on Line 4 of Form TEL-1 may be granted a credit amount that is less than the tentative allocation amount. The final allocation amount depends on the number of applicants and the amount of eligible expenses incurred by each applicant.

The Department of Taxation and DRPT intend to coordinate their efforts to carry out the provisions of this credit.

Any credit attributable to a partnership, electing small business corporation (S corporation), or limited liability company will be allocated to the individual partners, shareholders, or members, respectively, in proportion to their ownership or interest in such business entities.

Definitions

Eligible telework expenses – expenses incurred during the taxable year pursuant to a telework agreement, in an amount up to \$1,200 for each participating employee, that enable a participating employee to begin to telework, which expenses are not otherwise the subject of a deduction from income claimed by the employer in any tax year. Such expenses include, but are not limited to, expenses paid or incurred to purchase 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. Such expenses do not include replacement costs for computers, computer-related hardware and software, modems, data processing equipment, telecommunications equipment, or computer security software and devices at the principal place of business when that equipment is relocated to the telework site. Eligible telework expenses may also include up to a maximum of \$20,000 for conducting a telework assessment on or after January 1, 2012. Such costs shall be ineligible for this credit if they are otherwise taken as a deduction by the employer from income in any taxable year. The costs included and allowed to be taken as a credit include program planning costs, which may include direct program development and training costs, raw labor costs, and professional consulting fees. Such costs shall not include those for which any other income tax credit is claimed. The credit for conducting a telework assessment shall be allowed once for each employer meeting the requirements herein.

Telework – the performance of normal and regular work functions on a workday at a location different from the place where work functions are normally performed and that is within or closer to the participating employee’s residence. The term does not include home-based businesses, extensions of the workday, or work performed on a weekend or holiday.

Telework agreement—an agreement signed by the employer and the participating employee, on or after July 1, 2012, but before January 1, 2022, that defines the terms of a telework arrangement, including the number of days per month the participating employee will telework in order to qualify for the credit, and any restrictions on the location from which the employee will telework. This agreement must be in accordance with policies set by the DRPT.

Telework assessment – an optional assessment leading to the development of policies and procedures necessary to implement a formal telework program that would qualify the employer for this credit, including but not limited to a workforce profile; a telework program business case and plan; a detailed accounting of the purpose, goals, and operating procedures of the telework program; methodologies for measuring telework program activities and success; and a deployment schedule for increasing telework activity.

When to Submit Application

File Form TEL-1 and any supporting documentation between September 1 and October 31 of the year preceding the calendar year for which the tax credit is to be earned.

File Form TEL-2, Form TEL-2 Schedule A Worksheet, the tentative allocation letter, and any other supporting documentation by April 1. For any application received without a postmark, the date received by the Department will be used to determine if the application was received by the filing deadline.

IMPORTANT: Only those taxpayers who have filed Form TEL-1 and received a tentative approval letter are permitted to file Form TEL-2.

Where to Submit Application

Submit forms and enclosures to the **Department of Taxation, ATTN: Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715** or fax it to **(804) 774-3902**.

What Does the Taxpayer Need to Do

Upon receiving notification of the tentative credit amount, taxpayers who meet the requirements set forth in the tentative approval letter, including actually incurring the estimated eligible telework expenses, may be granted a credit after submitting Form TEL-2, Telework Expenses Tax Credit Confirmation Application. This application must be submitted by April 1 of the year following the calendar year that the eligible expenses were incurred. See Form TEL-2 for instructions on claiming this credit on the applicable Virginia income tax return.

What to Expect from the Department

If the Department needs additional information, we will contact you by May 1 and you will have until May 15 to respond. If you have not received acknowledgment of your application by May 31, call **(804) 786-2992**.

The Department will issue the credit by June 30. If you have not received your credit certification by July 15, call **(804) 786-2992**.

What Does the Taxpayer Need to Do

If the tax return upon which this credit will be claimed is due on or before May 1, you may need to submit an extension along with a payment for any tax due or file an amended return once you have received the credit certification.

All business taxpayers should be registered with the Department before completing Form TEL-2. If you are not registered, complete Form R-1.

Pass-Through Entities

Each pass-through entity must file Form PTE with the Department within 30 days after the credit is granted. This information should be sent to: **Department of Taxation, ATTN: Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715** or you may fax it to **(804) 774-3902**. Please do not do both.

All pass-through entities distributing this credit to its owner(s), shareholders, partners, or members must give each a Schedule VK-1, Owner’s Share of Income and Virginia Modifications and Credits.

Where To Get Help

DRPT is available to help guide businesses through the development of a telework program. This includes providing assistance on policy and agreement development, training for teleworkers and managers, and program assessment. For questions about developing a telework program or the policies for telework agreements, visit the Telework!VA website at www.teleworkva.org or contact DRPT by phone at **(804) 786-4440** or by email at drptpr@drpt.virginia.gov. For all other questions, write to the **Department of Taxation, ATTN: Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715** or call **(804) 786-2992**.