

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** Almand

3. **Committee** House Finance

4. **Title** Neighborhood Assistance Act Tax Credits

2. **Bill Number** HB 2202

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the cap on the income tax credits authorized by the Neighborhood Assistance Act (the "Act") from \$8.0 million to \$12.0 million per fiscal year. This bill also would remove the sunset provision on the tax credits authorized by the Act. Under current law, the credits are not authorized beyond fiscal year 2002.

The effective date of this bill is not specified.

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

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2000-01	\$0	GF
2001-02	\$0	GF
2002-03	<\$4.0 million>	GF

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

This bill would decrease General Fund revenues by \$4.0 million in FY 2003. In FY 2004 and each fiscal year thereafter, General Fund revenues would be reduced by \$12.0 million.

The department would incur minimal costs as a result of this bill.

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

Department of Taxation
Department of Social Services

10. Technical amendment necessary: None.

11. Other comments:

Background

The Virginia Neighborhood Assistance Program allows tax credits for business firms and individuals who contribute to approved neighborhood assistance organizations designed to benefit impoverished individuals. The credit can be applied against the income tax imposed on individuals, trusts, estates, and corporations; the bank franchise tax; and the gross receipts tax imposed on insurance and public service companies.

To be approved as a neighborhood assistance organization, an organization must be exempt from federal income tax under Internal Revenue Code ("IRC") § 501(c)(3) or § 501(c)(4), and must have a primary function of providing assistance to impoverished people. Activities sponsored under the program include education, job training, housing assistance, health care clinics and community services. A qualifying organization is approved by the Virginia Department of Social Services for a 12-month period, and is permitted to grant state tax credits to business firms making qualifying donations. Business firms are permitted to contribute money, merchandise and professional services to approved neighborhood organizations in exchange for state tax credits.

Business firms are permitted a tax credit equal to 45% of contributions and must make a minimum donation of \$889 to receive a credit. Donors may take a maximum of \$175,000 in tax credits in any tax year. Any credit not usable for the taxable year may be carried over for the next 5 taxable years.

Individuals making qualifying monetary donations of \$50 or more by cash or check are also allowed a credit. The credit for such donations would be equal to the donation, not to exceed \$200 in a taxable year.

The total amount of credits the Department of Social Services is authorized to allocate to approved neighborhood assistance organizations is limited to \$8 million in a fiscal year. However, \$2.75 million of this amount must be designated for allocation to education programs. If requests for credits by education programs are less than \$2.75 million, then any remaining amount can be allocated to other programs. Under current law, no credits can be authorized after June 30, 2002.

Proposal

This bill would increase the maximum number of credits authorized under the Act from \$8.0 million to \$12.0 million. This bill would also eliminate the June 30, 2002 sunset provision from the Act.

Other Legislation

Senate Bill 1214 is identical to this bill.

House Bill 2473 would establish the Home Energy Assistance Program under the Neighborhood Assistance Act. Among other features, this bill would extend the sunset provision on the tax credits through fiscal year 2007 and increase the maximum number of allowable credits to \$9.0 million.

cc: Secretary of Finance

Date: 1/15/01/CT

Document: S:\2001leg\WorkInProgress\OTPwork\House Bills\HB2202F161.doc