

**DEPARTMENT OF TAXATION  
2001 Fiscal Impact Statement**

**1. Patron** Diamonstein

**3. Committee** House Finance

**4. Title** Income Tax: Neighborhood Assistance Act

**2. Bill Number** HB 2669

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would increase the Neighborhood Assistance Act tax credit percentage from 45 percent to 50 percent for business firms that make donations to neighborhood assistance organizations.

The effective date of this bill is not specified.

**6. Fiscal Impact Estimates are:** None. (See Line 8.)

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

**8. Fiscal implications:**

The Neighborhood Assistance Act sets a limit on the total credits that may be claimed at \$8.0 million annually. Enactment of this bill would not have any impact on General Fund revenue as the program is authorizing a credit up to the amount of the current cap. This bill only changes the percentage of the donation that may be taken as a credit.

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:** Yes.

This amendment would require an amendment in the nature of a substitute. In addition to § 63.1-324 which this bill amends, §§ 58.1-333 and 58.1-430 also provide for Neighborhood Assistance Act tax credits. These two sections should be amended to reflect the change from 45% to 50%.

## **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 Neighborhood Assistance Act tax credit percentage from 45 percent to 50 percent for business firms that make donations to neighborhood assistance organizations.

Because the minimum credit that can be granted to a business firm is \$400, increasing the credit percentage from 45% to 50% would decrease the minimum donation under this program from \$889 to \$800 in order to receive the credit.

During the 1997 session of the General Assembly, legislation was enacted that contained a major revamping of the Neighborhood Assistance Act. Included in this legislation was a provision that decreased the credit percentage from 50% to 45%.

### **Other Legislation**

**House Bill 2202** and **Senate Bill 1214** would increase the cap on the income tax credits authorized by the Neighborhood Assistance Act from \$8.0 million to \$12.0 million per fiscal year and remove the sunset provision on the tax credits.

**House Bill 2473** would establish the Home Energy Assistance Program under the Neighborhood Assistance Act. This program consists of a number provisions designed to provide emergency electric energy assistance to low-income individuals and families.

**House Bill 2747** would designate \$2 million of credits of the \$8 million of credits currently authorized by the Neighborhood Assistance Act to the Virginia Second Harvest Food Banks.

cc: Secretary of Finance

**Date:** 1/26/01/CT

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