

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** Whipple

3. **Committee** Passed Senate and House

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

2. **Bill Number** SB 1214

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would amend the provisions under the Neighborhood Assistance Act (the "Act") regarding contributions made by individuals that may qualify for a tax credit. Under this bill, individuals would be allowed to receive a tax credit under the Act equal to 45% of a monetary donation made to a neighborhood organization. In order to qualify for a credit, donations by individuals to neighborhood organizations would have to be at least \$900. The maximum tax credit allowed to individual or married taxpayers would be limited to \$750 annually. Of the \$8 million of credits authorized by the Act, individuals may account for no more than \$1 million. This bill would also extend the sunset provision of the Act through fiscal year 2004.

This bill would be effective on July 1, 2001, except for the provisions that change the treatment of contributions from individuals. The provisions that change the treatment of contributions from individuals would be effective for taxable years beginning on or after January 1, 2002.

6. **Fiscal Impact Estimates are:** Not Available. (See Line 8.)

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

8. **Fiscal implications:**

Revenue Impact – Department of Taxation

The changes this bill makes to the provisions regarding credits for individuals would not decrease General Fund revenues as the total amount of credits that may be granted is capped and annual credits granted already utilize the entire \$8 million cap. The extension of the tax credits authorized under the act through FY 2004 would reduce General Fund revenues by \$8 million beginning in FY 2004.

Administrative Costs - Department of Taxation

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

Administrative Costs – Department of Social Services

The Department of Social Services (“DSS”) would incur minimal costs to separately track the individual contributions to assure that they do not exceed \$1 million.

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 amend the current provisions under the Neighborhood Assistance Act regarding contributions made by individuals that may qualify for a tax credit. The following provisions would be changed:

- ◆ The credit percentage would be reduced from 100% to 45%.
- ◆ The minimum donation required to qualify for the credit would be increased from \$50 to \$900. Therefore, the minimum credit that an individual could receive would be \$405.
- ◆ The maximum tax credit allowed each taxable year to individual or married taxpayers would be limited to \$750. In order to receive the maximum \$750 credit, an individual would have to donate at least \$1,667.
- ◆ Credits claimed by individuals under the Act would be limited to \$1 million. If total requests for credits from individuals do not reach \$1 million, then any remaining amount could be allocated to businesses.

This bill would also extend the sunset provision of the Neighborhood Assistance Act through fiscal year 2004.

Other Legislation

House Bill 2202 is identical to this bill.

cc: Secretary of Finance

Date: 3/23/01/CT

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