

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** Whipple

3. **Committee** House Finance

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

2. **Bill Number** SB 1214

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 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.

This bill would also increase the total amount of credits that may be granted under the Act by \$1 million to a total of \$9 million. This \$1 million increase would be reserved for individuals. 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.)

6a. **Expenditure Impact: Department Of Social Services**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2000-01	\$0	0	GF
2001-02	\$183,968	2	GF
2002-03	\$130,468	2	GF

7. **Budget amendment necessary:** Yes.

ITEM(s): 380, Subprogram 45101

8. Fiscal implications:

Revenue Impact – Department of Taxation

This bill would likely decrease General Fund revenues. It is unknown, however, how much General Fund revenues would decrease. The maximum amount that General Fund revenues could decrease under this bill is \$1 million beginning in FY 02.

Administrative Costs - Department of Taxation

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

Administrative Costs – Department of Social Services

According to the Department of Social Services (“DSS”), two additional staff persons will be needed to manage the increased workload due to this legislation. One employee will be in a Program Administration Manager and the other will be a Program Specialist.

The changes to the program will require additional outreach, training and ongoing technical assistance in addition to the increased work and complexity in administration of the program. Personnel, equipment, and support costs total \$143,986 in FY 2002 and \$122,968 in FY 2003. Funds to cover the routine operating costs of postage, office, travel, supplies, telephone, rent, liability insurance, etc. are estimated at \$5,200 per employee. One-time costs totaling \$10,500 per employee are included in the first year for personal computers, office furniture and equipment.

The cost of computer system development is estimated to be approximately \$30,000 with a \$5,000 per year annual cost for contractor performed system maintenance. The million-dollar cap on donations by individuals will require an additional database and tracking system. Because this would essentially be a new program, funding estimated at \$10,000 the first year and \$2,500 per year thereafter will be needed for publicity, outreach, and training.

SB 1214 Cost Summary

	FY 2002	FY 2003*
Salaries and Benefits	\$112,568	\$112,568
Operating Costs	\$10,400	\$10,400
One-time Equipment	\$21,000	\$0
Publicity Materials	\$10,000	\$2,500
Software Development/Maintenance	\$30,000	\$5,000
Total Cost	\$183,968	\$130,468

If the change in the minimum donation allowed by individuals results in a significant decrease in the volume of donations, there may be a possibility to reduce the budget in the next biennium budget.

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.

This bill would also increase the total amount of credits that may be granted under the Act by \$1 million to a total of \$9 million. This \$1 million increase is reserved for individuals. If total requests for credits from individuals do not reach \$1 million, then any remaining amount would not be allocated to other programs.

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

cc: Secretary of Finance

Date: 2/9/01/CT

Document: S:\2001leg\WorkInProgress\OTPwork\Senate Bills\SB1214FES2161.doc