

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Nutter

2. **Bill Number** HB 1362

3. **Committee** Passed House and Senate

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Neighborhood Assistance Act:
Individual Monetary Donations

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would reduce the minimum monetary donation eligible to receive a tax credit under the Neighborhood Assistance Act from \$900 to \$500. This bill would also remove the \$1 million cap on credits available to individuals.

The effective date of this bill is not specified.

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

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

8. **Fiscal implications:**

The department would incur minimal costs to implement this bill.

By reducing the minimum contribution necessary to be eligible for a tax credit and also removing the cap on credits available to individuals, participation in the program would likely increase, therefore increasing the possibility that the \$8.0 million cap would continue to be reached. This bill is not expected to have much of a revenue impact as the credit is already capped.

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

Department of Social Services
Department of Taxation

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. Also, credits are available to physicians, dentists, nurse practitioners, physician assistants, optometrists, dental hygienists and pharmacists who donate time to perform health care services at a qualified health clinic.

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.

In the 2001 session of the General Assembly, additional provisions were added to the program regarding monetary contributions made by individuals. Among the changes, the minimum qualifying monetary contribution was raised from \$50 to \$900. Credits for such donations were limited to 45% of the donation and the maximum credit for a taxable year was limited to \$750. The amount of credits available for these monetary donations was limited to \$1 million per year. However, if total requests for credits from individuals do not reach \$1 million, then any remaining amount may be allocated to businesses.

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. As explained above, credits claimed by individuals under the Act are limited to \$1 million. Under current law, no credits can be authorized after June 30, 2004.

Proposal

This bill would reduce the minimum monetary donation eligible to receive a tax credit under the Neighborhood Assistance Act from \$900 to \$500. Therefore, the minimum credit an individual could receive from a monetary donation would be reduced from \$405 to \$225. This bill would also remove the \$1 million cap on credits available to individuals.

Other Legislation

House Bill 179 would make Neighborhood Assistance Act Credits available to nurses who donate time to perform health care services at a qualified health clinic.

cc : Secretary of Finance

Date: 03/06/02 CT

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