

DEPARTMENT OF TAXATION

2004 Fiscal Impact Statement

1. **Patron** Mamie Locke

2. **Bill Number** SB 436

House of Origin:

3. **Committee** Senate Rehabilitation and Social
Services

☒ **Introduced**

☐ **Substitute**

☐ **Engrossed**

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

Second House:

☐ **In Committee**

☐ **Substitute**

☐ **Enrolled**

5. **Summary/Purpose:**

This bill would extend the sunset date for the Neighborhood Assistance Act from 2004 to 2006 and increase the maximum tax credit for a monetary donation that can be issued to an individual in a taxable year from \$750 to \$45,000.

The effective date of this bill is not specified.

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

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

8. **Fiscal implications:**

The Department would incur minimal administrative costs as a result of this bill. In addition, this bill would have no effect on General Fund revenues. Increasing the maximum tax credit for a monetary donation by an individual would only shift the composition of the credits claimed because the \$8 million cap of allowable credits is fully allocated.

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

Department of Taxation
Department of Social Services

10. **Technical amendment necessary:** No.

11. Other comments:

Background

The 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 corporations.

To be approved as a neighborhood assistance organization, an organization must be exempt from federal income tax under Internal Revenue Code ("IRS") § 501(c)(3) or § 204(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, nurses, nurse practitioners, physician assistants, optometrists, dental hygienists, pharmacists and professional counselors, clinical social workers, clinical psychologists, marriage and family therapists and physical therapists 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.

Individuals making qualified monetary donations of \$500 or more by cash or check are also allowed a credit. The credit for such donations would be equal to 45% of the donation, not to exceed \$750 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, 2004.

Proposal

This bill would extend the sunset date for the tax credits allowed under the Neighborhood Assistance Act from fiscal year 2004 to fiscal year 2006. In addition, this bill would increase the maximum tax credit that can be issued to an individual for a monetary donation in a taxable year from \$750 to \$45,000.

Other Legislation

House Bill 237 would extend the sunset date for the tax credits allowed under the Neighborhood Assistance Act from fiscal year 2004 to fiscal year 2009.

House Bill 239 would amend the definition of a neighborhood organization to include certain health care clinics.

House Bill 284 would provide an income tax credit to health care practitioners who provide free medical services to indigent persons who cannot pay for services themselves.

House Bill 285 and Senate Bill 81 would make Neighborhood Assistance Act credits available to eligible health practitioners regardless of where the service is delivered.

cc : Secretary of Finance