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HOUSE BILL NO. 2914

Offered January 21, 2005

A *BILL to amend the Code of Virginia by adding in Chapter 3 of Title 58.1 an article numbered 13.2, consisting of sections numbered 58.1-439.18 through 58.1-439.21, relating to Virginia Education Investment Act.*

Patron—Saxman

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Chapter 3 of Title 58.1 an article numbered 13.2, consisting of sections numbered 58.1-439.18 through 58.1-439.21, as follows:

*Article 13.2.**The Public/Private Education Investment Tax Credit.**§ 58.1-439.18. Definitions.*

As used in this article:

"Business entity" means a business that is subject to the taxes imposed by Articles 2 (§ 58.1-320 et seq.) and 10 (§ 58.1-400 et seq.) of Chapter 3, Chapter 12 (§ 58.1-1200 et seq.), Article 1 (§ 58.1-2500 et seq.) of Chapter 25, or Article 2 (§ 58.1-2620 et seq.) of Chapter 26 of this title.

"Federal Free and Reduced Lunch Program" means the federal program established under 42 U.S.C. § 1751.

"Individual taxpayer" means an individual subject to the taxes imposed by Article 2 (§ 58.1-320 et seq.) of Chapter 3.

"Nonprofit education foundation" means public school foundations and scholarship foundations as defined in this section.

"Public school foundation" means a nonstock, nonprofit corporation as defined in § 22.1-212.2:2, that is exempt from taxation under § 501 (c) (3) of the Internal Revenue Code of 1986, as amended, and established for the purpose of implementing public school capital improvement projects that have been approved by the foundation's local school board.

"Qualified educational expenses" means school-related tuition and instructional fees and materials, including textbooks, workbooks, and supplies used solely for school-related work.

"Scholarship foundation" means a nonstock, nonprofit corporation that is exempt from taxation under § 501 (c) (3) of the Internal Revenue Code of 1986, as amended, and established in part to provide financial aid for the education of students residing in the Commonwealth.

"Student" means a child who is of compulsory school attendance age as defined in § 22.1-254 and who is a resident of Virginia.

§ 58.1-439.19. Tax credit for donations to education foundations by business entities and individual taxpayers.

A. 1. For taxable years beginning on and after January 1, 2006, a business entity may receive a credit against any tax due under Articles 2 (§ 58.1-320 et seq.) and 10 (§ 58.1-400 et seq.) of Chapter 3, Chapter 12 (§ 58.1-1200 et seq.), Article 1 (§ 58.1-2500 et seq.) of Chapter 25, or Article 2 (§ 58.1-2620 et seq.) of Chapter 26 of this title, in an amount equal to 25 percent of the contribution to a nonprofit education foundation included on the list published annually by the Department in accordance with the provisions of § 58.1-439.20.

2. For taxable years beginning on and after January 1, 2006, an individual taxpayer may receive a credit against any tax due under Article 2 (§ 58.1-320 et seq.) of Chapter 3 of this title, in an amount equal to 25 percent of (i) the contribution to a nonprofit education foundation included on the list published annually by the Department in accordance with the provisions of § 58.1-439.20; or (ii) the total education expenses paid by the individual taxpayer for a student who is claimed as a dependent on the income tax return of the individual taxpayer. However, such amount shall not exceed \$800 for an individual taxpayer and \$1,200 for taxpayers filing a joint return.

B. Tax credits shall be awarded to business entities by the Department of Taxation on a first-come, first-served basis in accordance with procedures established by the Department under the following conditions:

1. The total amount of tax credits that may be granted to business entities each fiscal year under this section shall be \$50 million, with \$25 million granted for contributions made to public school foundations and \$25 million granted for contributions made to scholarship foundations.

2. Credits granted to a partnership, electing small business (Subchapter S) corporation, or limited

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59 liability company shall be allocated to their individual partners, shareholders, or members, respectively,
60 in proportion to their ownership or interest in such business entities.

61 3. Any tax credit that is not used by a business entity or individual taxpayer in the taxable year
62 following the year in which the contribution is made shall not be carried forward or carried back and
63 shall not be refundable or transferable.

64 4. Every taxpayer, business entity, or individual seeking the credit allowed under this section shall
65 submit with the income tax return verification from each nonprofit education foundation to which
66 monetary donations have been made by the taxpayer during the taxable year.

67 C. In a form approved by the Department, business entities shall request and receive
68 preauthorization for a specified tax credit amount from the Department. The Department's
69 preauthorization notice shall accompany the donation from the business entity to the nonprofit education
70 foundation, which shall, within 10 days, return the notice to the Department certifying the amount of the
71 donation and date received. Preauthorization notices not acted upon by the business entity within 30
72 days of issuance shall be void. No tax credit shall be approved by the Department for activities that are
73 a part of a business entity's normal course of business.

74 § 58.1-439.20. Education foundation eligibility and requirements; list of foundations receiving
75 contributions.

76 A. Education foundations seeking to receive and administer tax credit-approved funds shall submit
77 information to the Department, which shall determine whether an applicant is a nonprofit education
78 foundation as defined in § 58.1-439.18. The Department shall prescribe through regulations what
79 information shall be submitted by such foundations. Notice of approval or denial, including reasons for
80 denial, shall be issued by the Department to the applicant within 60 days after the information is
81 submitted.

82 B. The Department shall submit a list of all nonprofit education foundations receiving contributions
83 from business entities and individual taxpayers to the chairmen of the House and Senate Finance
84 Committees no later than December 1 of each year.

85 § 58.1-439.21. Guidelines for public school foundations and scholarship foundations.

86 A. 1. A public school foundation, as defined in § 58.1-439.18 and included on the list published
87 annually by the Department in accordance with the provisions of § 58.1-439.20, shall disburse annually
88 at least 90 percent of its tax-credit derived funds for capital improvement projects approved by the local
89 school board and for extracurricular activities, including, but not limited to, sports, band, and chorus.

90 2. An audit of the foundation's tax credit-derived funds, complying with uniform financial accounting
91 standards and conducted by a certified public accountant, shall be conducted annually and a summary
92 report made available to the public upon request. The report shall include (i) the total number and
93 dollar amount of contributions received during the previous calendar year; (ii) the total number and
94 dollar amount of disbursements made to capital improvement projects during the previous calendar
95 year; and (iii) the total number and dollar amount of disbursements made to extracurricular activities
96 during the previous calendar year.

97 B. 1. A scholarship foundation, as defined in § 58.1-439.18 and included on the list published
98 annually by the Department in accordance with the provisions of § 58.1-439.20, shall disburse annually
99 at least 90 percent of its tax-credit derived funds for qualified educational expenses through
100 scholarships.

101 2. In awarding scholarships, the scholarship foundation shall (i) give priority to any student whose
102 family's annual household income is less than twice the amount required to qualify for the Federal Free
103 and Reduced Lunch Program; (ii) require, as part of the application, evidence of the student's reading
104 and math achievement for the previous school year as measured by a national norm-referenced
105 achievement assessment, or a Virginia Standards of Learning assessment; (iii) not limit scholarships to
106 students of one school; and (iv) not discriminate on the basis of race, color, national origin, or
107 disability.

108 3. Scholarship foundations shall ensure that schools selected by scholarship students (i) are in
109 compliance with the Commonwealth's and locality's health and safety laws and codes; (ii) hold a valid
110 occupancy permit as required by the locality; (iii) do not discriminate on the basis of race, color,
111 national origin, religion, or disability; and (iv) comply with nonpublic school accreditation requirements
112 as set forth in § 22.1-19 and administered by the Virginia Council for Private Education, or maintain an
113 assessment system that annually measures scholarship students' progress in reading and math using a
114 national norm-referenced achievement test, including, but not limited to, the Stanford Achievement Test,
115 California Achievement Test, and Iowa Test of Basic Skills.

116 4. Scholarship foundations shall (i) provide receipts, approved by the Department, to individual
117 taxpayers for their contributions; and (ii) develop procedures for disbursing scholarships in periodic
118 payments throughout the school year to ensure scholarships are portable.

119 5. An audit of the scholarship foundation's tax credit-derived funds, that complies with uniform
120 financial accounting standards and is conducted by a certified public accountant, shall be conducted

121 annually and a summary report made available to the public upon request. The report shall include (i)
122 the total number and dollar amount of contributions received during the previous calendar year; (ii) the
123 total number and dollar amount of educational expenses scholarships awarded during the previous
124 calendar year; (iii) the total number and dollar amount of educational expenses scholarships awarded
125 during the previous calendar year to every student whose family's annual household income was less
126 than twice the amount required to qualify for the Federal Free and Reduced Lunch Program; and (iv)
127 the percentage of first time recipients of educational expenses scholarships who were enrolled in a
128 public school during the previous year.