

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** Phillip A. Hamilton

2. **Bill Number** HB 358

3. **Committee** Senate Finance

**House of Origin:**

       **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Neighborhood Assistance Act Credits

**Second House:**

  X   **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would change the eligibility requirements for individuals to claim neighborhood assistance tax credits to align them with eligibility requirements for businesses. Individuals would be eligible for the credit for donations of real property and stock as well as monetary donations, and they would still be able to claim the charitable contribution deduction on their federal tax returns.

This bill would be effective for taxable years beginning on and after January 1, 2006.

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

#### 6a. **Administrative Costs:** Department of Social Services

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2005-06	\$0	0	GF
2006-07	(\$59,570)	1	GF
2007-08	(\$53,070)	1	GF
2008-09	(\$53,070)	1	GF
2009-10	(\$53,070)	1	GF
2010-11	(\$53,070)	1	GF
2011-12	(\$53,070)	1	GF

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

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### 8. **Fiscal implications:**

#### Revenue Impact

Because this bill would allow individuals to donate appreciated real property and stock, they may receive a charitable contribution deduction and avoid up to 35% federal and 5.75% Virginia income tax on capital gain in addition to receiving a Virginia income tax credit of 45% of the appraised value. Accordingly, the annual negative revenue impact of this bill on General Fund revenue is unknown. Total tax credits granted under this program cannot exceed \$8 million annually.

### Department of Social Services Administrative Costs

Currently, Department of Social Services (DSS) averages approximately 2,200 tax certificates per year (600 donations per year from individuals and approximately 1,600 from businesses). Two full time staff members are needed to keep up with this workload.

Because this bill would remove the limitation disallowing a credit when a federal charitable contribution deduction is claimed, donations are expected to increase. For the period 7/1/01 through 6/30/02 individuals received a 100% tax credit for donation between \$50 and \$200. During this time, DSS received over 3,200 donations by individuals. Making an assumption that the number of individuals seeking tax certificates increases to 70% of the 7/1/01-6/30/02 level, DSS will receive approximately 2,300 individual donations.

Combined with business donations, the number of tax certificates issued annually will total 3,900. This is an 80% increase over the current workload and will require a minimum of one more position. DSS is requesting a Program Administration Specialist I (pay band 4) at a total cost of \$59,570 the first year and \$53,070 each year thereafter. There is also a slight programming change that will need to be made. This cost can be absorbed when DSS does regular upgrades and maintenance.

DSS also anticipates an increase in the number of non-profit organizations applying to be in the program.

### Department of Taxation Administrative Costs

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

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

Department of Social Services  
Department of Taxation

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

## **11. Other comments:**

### **Background**

The Neighborhood Assistance Act grants a tax credit to 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.

Business firms are permitted a tax credit equal to 45% of the value of money, property, professional services, and contracting services donated, and must make a minimum donation of \$889 to receive the minimum allowable credit of \$400. Donors may take a maximum of \$175,000 in tax credits in any tax year, which requires donations valued at \$388,889. Any credit not usable for the taxable year may be carried over for the next 5 taxable years.

Individuals are permitted a tax credit equal to 45% of qualified monetary donations of \$500 or more by cash or check. The maximum credit for such donations is \$50,000, which requires donations valued at \$111,111. The tax credit allowed for individuals may only be taken to the extent the individual has not claimed a deduction for such amount on his federal income tax return.

The total amount of credits the Department of Social Services is authorized to allocate to 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.

### **Proposal**

To qualify for credit available under this program, in addition to cash donations, this bill would permit individuals to donate real property or stock as well.

This bill would also permit a tax credit for an individual who has taken a deduction on his federal income tax return.

### **Other Legislation**

SB 544 would make several changes to the program including (i) increasing the annual cap for tax credits allowed under the program from \$8 million to \$12 million, (ii) providing that \$1 million of the cap increase would be dedicated for education programs and \$3 million for providing grants to private schools for students with disabilities, (iii) reducing the tax credit percentage for donations made by corporations and individuals from 45% to 40%, and eliminating the restriction placed upon individuals from claiming a tax credit for the donation if a charitable contribution deduction is also taken.

cc : Secretary of Finance  
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