

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** Walter A. Stosch

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

4. **Title** Neighborhood Assistance Act

2. **Bill Number** SB 544

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would make several changes to the Neighborhood Assistance Act including (i) increasing the annual cap for tax credits allowed under the program from \$8 million to \$12 million, (ii) allocating \$1 million of the cap increase 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 (iv) eliminating the restriction placed upon individuals from claiming a tax credit for the donation if a charitable contribution deduction is also taken. The Department of Education would administer the Schools for Students with Disabilities Fund from which grants would be made to private schools for students with disabilities. The Fund would be funded from monetary donations for which the Department would allocate the annual \$3 million in tax credits. The Board of Education would be required to establish regulations for the grants program, including regulations for procedures to allocate the \$3 million in tax credits in fiscal years in which more than \$3 million in monetary donations were made to the Fund.

The bill does not specify an effective date.

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

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

8. **Fiscal implications:**

The magnitude of the revenue loss associated with this bill is unknown, but may be as large as the \$4 million annual increase in the cap for NAA credits. The ability of donors to receive a 40% credit in addition to a charitable donation deduction on their federal and Virginia income tax returns may attract significantly more donations.

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 Education
Department of Taxation
Department of Social Services

10. Technical amendment necessary: Yes.

If the intent is to ensure that all of the \$3.75 million allocated to education programs conducted by neighborhood organizations is either used by such organizations or reallocated, the following technical amendment is suggested:

Page 3, Line 131 after less than
Strike: 2,750,000
Insert: 3,750,000

To encourage electronic filing (which cannot accommodate paper attachments), the following technical amendment is suggested:

Page 4, Line 206, after shall
Strike: attach the certificate to the Virginia individual income tax return when claiming the credit
Insert: claim the credit in accordance with procedures and processes developed by the Department of Taxation

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 shall 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 allocated 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

This bill will change the total amount of credits available under the program to \$12 million. Of this amount, \$3.75 million would be allocated to education programs conducted by neighborhood organizations and \$3 million would be allocated for monetary donations to the Schools for Students with Disabilities Fund.

A business firm would be eligible for a credit in the amount of 40% of the value of the money, property, professional services and contracting services donated by the business firm during its taxable year to neighborhood organizations, or 40% of the monetary contributions to the Schools for Students with Disabilities Fund. In the event that more than the maximum \$3.75 million or \$3 million are donated to the funds, the Department of Education must develop procedures to allocate the maximum credit among the donors. This 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.

No more than an aggregate of \$3 million in tax credits would be allocated to individuals and businesses in any fiscal year by the Department of Education for monetary donations to the Schools for Students with Disabilities Fund. If the amount of tax credits requested by neighborhood organizations for qualified education programs is less than \$2.75 million of the \$3.75 million available, the balance of such amount shall be allocated to other types of qualified programs. A technical amendment is suggested to ensure that all of the \$3.75 million allocation is either used or reallocated.

This bill also eliminates the restriction placed upon individuals from claiming a tax credit for the donation if a charitable contribution deduction is also taken. The combination of a charitable contribution at a maximum federal tax rate of 35%, plus a maximum Virginia tax rate of 5.75%, in addition to a 40% credit, means that an individual could receive as much as 80% of a donation in federal and state income tax benefits.

Other Legislation

HB 358 is similar to this bill. HB 358 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 deduction on their federal tax returns. HB 358 would not increase the total amount of credits authorized, nor would it change the percentage of credit awarded per contribution.

cc : Secretary of Finance

Date: 01/19/2006 PTR
SB544F161.doc