

# DEPARTMENT OF TAXATION

## 2012 Fiscal Impact Statement

1. **Patron** Frank W. Wagner

2. **Bill Number** SB 680

3. **Committee** House Finance

**House of Origin:**

☐ Introduced

☐ Substitute

☐ Engrossed

4. **Title** Income Tax: Neighborhood Assistance Act  
Tax Credit; Threshold for Percentage of  
Impoverished People

**Second House:**

☒ In Committee

☐ Substitute

☐ Enrolled

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

This bill would revise the minimum percentage of impoverished persons that a neighborhood organization must serve in order to qualify for the Neighborhood Assistance Act Tax Credit program. Under this bill, the minimum percentage of impoverished persons that neighborhood organizations approved by the Board of Social Services must serve would decrease from 50 to 40 percent. The minimum percentage of impoverished persons that must be served by neighborhood organizations approved by the Board of Education would continue to be 50 percent.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

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

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

#### Department of Taxation Administrative Impact

There would be no administrative cost in connection with revising the minimum percentage of impoverished persons that a neighborhood organization must serve in order to qualify for the Neighborhood Assistance Act Tax Credit program. However, this bill would also require the Department to submit a report by November 15 of the year before the expiration of this tax credit. In order to produce the report, the Department would have to modify its forms and systems to capture additional data, and begin accumulating data and conducting surveys soon after the bill becomes effective. If present staff is diverted to the proposed study, then the Department would not have the resources to continue performing other critical work.

#### Department of Social Services Administrative Impact

The Department of Social Services reports that its administration of the Neighborhood Assistance Tax Credit program would have a minimal fiscal impact on its operations.

## Revenue Impact

This bill would have no revenue impact because this credit is capped at \$11.9 million, with \$4.9 million being allocated to education proposals and \$7 million to all other proposals.

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

Department of Taxation  
Department of Social Services  
Superintendent of Public Instruction

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

### **11. Other comments:**

#### Current Law

The Virginia Neighborhood Assistance Act provides an income tax credit to businesses and individuals that donate to neighborhood organizations for approved programs that benefit impoverished people. Under this Act, a neighborhood organization is allocated funding through the Neighborhood Assistance Act Program. The Department of Social Services ("DSS") and the Department of Education ("DOE") are responsible for approving the programs and allocating the tax credits to the neighborhood organizations. When an individual or business donates to an organization that qualifies as a neighborhood organization, they are eligible to receive an income tax credit from that neighborhood organization.

Under current law, in order to be eligible for participation in the Neighborhood Assistance Program and receive an allocation of tax credits, an applicant must meet the following criteria: (i) have been in operation as a viable entity, providing neighborhood assistance for impoverished people, for at least 12 months; (ii) must be able to demonstrate that at least 50 percent of the total people served and at least 50 percent of the total expenditures were for impoverished people; (iii) must not contain any significant findings or areas of concern for the ongoing operation of the neighborhood organization following an audit; and (iv) must demonstrate that at least 75 percent of total revenue received is expended to support the applicant's ongoing programs each year.

A business contributing to an approved Neighborhood Assistance Act Program organization is eligible for an income tax credit equal to 40 percent of the contribution. The 2010-2012 Appropriation Act allows businesses to claim a credit equal to 45 percent of the qualifying donations, however. The minimum tax credit that may be issued to a business contribution is \$400. A contributing business may take a maximum of \$175,000 Neighborhood Assistance Act Program credits in a taxable year.

An individual who contributes directly to an approved Neighborhood Assistance Act Program organization is also eligible for an income tax credit equal to 40 percent of the contribution. The minimum donation by an individual must be at least \$500, and the maximum tax credit is \$50,000.

The total amount of credits that may be granted for each fiscal year is \$11.9 million. Out of this amount \$4.9 million is allocated to education proposals, while the remaining \$7 million is allocated to all other proposals. No credits may be authorized after Fiscal Year 2011.

In 2010, the General Assembly (2010 Acts of Assembly, Chapter 164, Senate Bill 633), amended the definition of “impoverished people” to mean individuals with family annual income not in excess of 200 percent of the current poverty guidelines for education proposals submitted to the Superintendent of Public Instruction requesting an allocation of tax credits. For other than education proposals, impoverished people continued to mean individuals with family annual income not in excess of 150 percent of the current poverty guidelines.

### Proposal

This bill would revise the minimum percentage of impoverished persons that a neighborhood organization must serve in order to qualify for the Neighborhood Assistance Act Tax Credit program. Under this bill, the minimum percentage of impoverished persons that neighborhood organizations approved by the Board of Social Services must serve would decrease from 50 to 40 percent. The minimum percentage of impoverished persons that must be served by neighborhood organizations approved by the Board of Education would continue to be 50 percent.

This bill would require the Department to submit a report concerning the Neighborhood Assistance Act Tax Credit to the House Appropriations, House Finance, and Senate Finance Committees no later than November 15 of the year immediately preceding the sunset date. Such report would include the following information:

- The number of persons, corporations, or other classes of taxpayers claiming the Neighborhood Assistance Act Tax Credit in each of the immediately preceding five years;
- The aggregate amount of credits claimed in each of the preceding five years by each class of taxpayers;
- The average amount of credit claimed by each class of taxpayers in each of the preceding five years;
- The average amount of taxes paid, after claiming any credits or deductions, by each class of taxpayers claiming the tax credit in each of the preceding five years;
- Any noted trends in the use of the tax credit; and
- Any other information deemed relevant by the Department.

All other agencies of the Commonwealth involved in the administration of the credit would be required to provide information requested by the Department.

Although the bill would require the report to provide information on the preceding five taxable years, complete data for only three taxable years of the credit would be available by November 15, 2013. The first returns for the 2012 taxable year would be due April 15, 2013, but taxpayers may elect a six-month extension until October 15, 2013. In addition,

taxpayers reporting on a fiscal year that begins during calendar year 2012 could be filing under an extended due date as late as September 15, 2014, and the Department would need a few months to process, validate and analyze the data. Therefore, by November 15, 2013, the Department would have data for taxable years 2008, 2009, 2010, and most of 2011.

The effective date of this bill is not specified.

#### Other Legislation

**House Bill 368** would expand the professional services eligible for tax credits under the Neighborhood Assistance Act to include services provided by mediators certified by the Judicial Council of Virginia.

**Senate Bill 131** would increase the annual cap for Neighborhood Assistance Act Tax Credits to \$15 million, increase the annual cap for education proposals to \$8 million, increase the credit percentage to 65 percent, expand eligibility criteria, change the procedures for reallocating credits, and extend the sunset date to July 1, 2017. This bill would also create an Education Improvement Scholarships Tax Credit equal to 65 percent of monetary donations made to scholarship foundations.

cc : Secretary of Finance

Date: 2/22/2012 tlg  
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