

DEPARTMENT OF TAXATION

2016 Fiscal Impact Statement

1. **Patron** James P. 'Jimmie' Massie, III

3. **Committee** House Finance

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

2. **Bill Number** HB 1014

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the annual fiscal year cap for the Neighborhood Assistance Act Tax Credit to \$22 million and would equalize the amount of such cap allocated to education proposals and other proposals. Therefore, this bill would allocate \$11 million of the cap to education proposals and \$11 million to other proposals.

This bill also eliminates the requirement that at least 10 percent of the available amount of tax credits each year be allocated to qualified programs proposed by neighborhood organizations not receiving allocations in the preceding year.

This bill would be effective for Fiscal Year 2017 and each fiscal year thereafter.

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

7. **No Fiscal Impact:** (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department"), the Department of Education ("DOE"), and the Department of Social Services ("DSS") consider implementation of this bill as routine, and do not require additional funding.

Revenue Impact

This bill would have a negative General Fund revenue impact of \$5 million in Fiscal Year 2017 and each fiscal year thereafter. No budget amendment is needed because the General Fund revenue impact is assumed in the Introduced Executive Budget.

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

Department of Social Services

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Since 1982, the Virginia Neighborhood Assistance Act has provided an income tax credit to business firms and individuals that donate to neighborhood organizations for approved programs that benefit impoverished people. The Department of Social Services and the Department of Education are responsible for approving programs proposed by neighborhood organizations and allocating Neighborhood Assistance Act Tax Credits to such neighborhood organizations.

Under current law, the total amount of credits that may be granted to such neighborhood organizations for each fiscal year is subject to an annual cap in the following amounts:

	FY 2014	FY 2015	FY 2016 (and after)
Education Proposals	\$8 million	\$8.5 million	\$9 million
Other Proposals	\$7 million	\$7.5 million	\$8 million
TOTAL	\$15 million	\$16 million	\$17 million

A business firm or individual that makes a donation to a neighborhood organization for an approved program is then eligible to receive an income tax credit from that neighborhood organization.

The amount of the credit for a business firm or individual who donates professional services is equal to 65 percent of the value of the money, property, professional services, or contracting services donated by such taxpayer to a neighborhood organization for an approved program. No credit less than \$400 may be granted to a business firm or individual who provides professional services for any donation. Therefore, a business firm or individual who provides professional services must make a donation with a value of at least \$616 to meet the minimum credit threshold, and receive an allocation of credits.

The amount of the credit for an individual who makes a monetary donation or marketable securities donation to a neighborhood organization for an approved program is equal to 65 percent of the value of such donation. To receive an allocation of credits, an individual is required to make a donation of at least \$500. For purposes of determining the amount of credits allocated to an individual, the value of the individual's donation is limited to the lesser of the actual value of the donation or \$125,000. The \$125,000 cap on the value of donations caps the credit at \$81,250 per taxpayer.

The Neighborhood Assistance Act Tax Credit is currently oversubscribed. The chart below lists the amount of credits requested by neighborhood organizations wishing to obtain an allocation of credits and the annual credit cap for Fiscal Years 2014 through 2016:

	Education Proposals		Other Proposals	
Fiscal Year	Credits Requested	Annual Cap	Credits Requested	Annual Cap
2014	\$11.1 million	\$8.0 million	\$18.5 million	\$7.0 million
2015	\$17.8 million	\$8.5 million	\$22.2 million	\$7.5 million
2016	\$19.4 million	\$9 million	\$26.7 million	\$8 million
Total	\$48.3 million	\$24.5 million	\$67.4 million	\$35.0 million

Proposed Legislation

This bill would increase the annual fiscal year cap for the Neighborhood Assistance Act Tax Credit to \$22 million and would equalize the amount of such cap allocated to education proposals and other proposals. Therefore, this bill would allocate \$11 million of the cap to education proposals and \$11 million to other proposals.

This bill also eliminates the requirement that at least 10 percent of the available amount of tax credits each year be allocated to qualified programs proposed by neighborhood organizations not receiving allocations in the preceding year.

This bill would be effective for Fiscal Year 2017 and each fiscal year thereafter.

Similar Bills

Senate Bill 422 is identical to this bill.

House Bill 742 would permanently extend a provision that, for certain education proposals, provides a waiver of certain requirements imposed on affiliates of a neighborhood organization. In addition, the bill would further expand the waiver provision so that it is available for proposals other than education proposals.

House Bill 917 would reduce the amount of the tax credit from 65 percent of the value of donations to neighborhood organizations to 60 percent for Taxable Year 2017; 55 percent for Taxable Year 2018; and 50 percent for Taxable Year 2019 and taxable years thereafter.

cc : Secretary of Finance

Date: 1/23/2016 JJS
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