

# DEPARTMENT OF TAXATION

## 2016 Fiscal Impact Statement

1. **Patron** Kathy J. Byron

3. **Committee** House Finance

4. **Title** Neighborhood Assistance Act Tax Credits;  
Allocation of Credits

2. **Bill Number** HB 1390

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would eliminate a requirement in the Neighborhood Assistance Act that 10 percent of the available amount of Neighborhood Assistance Tax Credits each year be reserved for new organizations participating in the program. Beginning with tax credit allocations for Fiscal Year 2017 and thereafter, this bill would prohibit the Department of Education and the Department of Social Services (1) from allocating tax credits to a neighborhood organization on the basis of the dollar value of tax credits issued to the organization in a prior program year or years or (2) from employing a method for determining the maximum allocation of tax credits for any neighborhood organization that differs from the method employed for any other such organization.

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:**

#### Administrative Costs

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

The Department of Social Services ("DSS") would not incur any administrative costs unless the intent of this bill is to require DSS to rank qualifying neighborhood organizations using a grant review-like process. To the extent that this bill is intended to impose such requirement, DSS would require additional funding of \$105,365 in Fiscal Year 2017 and \$100,202 in Fiscal Year 2018 and each fiscal year thereafter for one full-time employee to evaluate and rank applicant neighborhood organizations.

## Revenue Impact

This bill would have no impact on General Fund revenue. Under current law, the total amount of tax credits that may be granted to neighborhood organizations for each fiscal year is subject to an annual fiscal year cap. The Neighborhood Assistance Act Tax Credit is currently oversubscribed. While this bill might affect which neighborhood organizations receive an allocation of credits, this bill would have no impact on General Fund revenue because the total amount of tax credits may not exceed the annual fiscal year cap.

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

Department of Education  
Department of Social Services  
Department of Taxation

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

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

#### Virginia Neighborhood Assistance Act Tax Credit

The Virginia Neighborhood Assistance Act provides an income tax credit to business firms 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 and the Department of Education are responsible for approving programs proposed by neighborhood organizations and allocating Neighborhood Assistance Act Tax Credits to neighborhood organizations with approved programs. 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.

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:

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

The Department of Social Services and the Department of Education are authorized to adopt regulations or, in the case of the Department of Education, guidelines for the approval or disapproval of such proposals by neighborhood organizations and for determining the value of the donations. Such regulations or guidelines must provide for the equitable allocation of the available amount of tax credits among the approved proposals submitted by neighborhood organizations. The regulations or guidelines must also provide 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; however, if the amount of tax credits for qualified programs requested by such neighborhood organizations is less than 10 percent of the available amount of tax credits, the unallocated portion of such 10 percent of the available amount of tax credits may be allocated to qualified programs proposed by other neighborhood organizations.

For all education proposals, no more than an aggregate of \$0.825 million in tax credits may be approved in a fiscal year to a neighborhood organization or to a grouping of neighborhood organization affiliates. For all other proposals, no more than an aggregate of \$0.5 million in tax credits may be approved in a fiscal year to a neighborhood organization or to a grouping of neighborhood organization affiliates.

Pursuant to DSS regulations, approved organizations that have received a tax credit allocation within the last four years are given an allocation based on the average amount of tax credits actually used in prior years. The allocation process may include a determination of the reasonableness of requests, caps, and percentage reductions in order to stay within the total available funding.

#### Proposed Legislation

This bill would eliminate a requirement in the Neighborhood Assistance Act that 10 percent of the available amount of Neighborhood Assistance Tax Credits each year be reserved for new organizations participating in the program. Beginning with tax credit allocations for Fiscal Year 2017 and thereafter, this bill would prohibit the Department of Education and the Department of Social Services (1) from allocating tax credits to a neighborhood organization on the basis of the dollar value of tax credits issued to the organization in a prior program year or years or (2) from employing a method for determining the maximum allocation of tax credits for any neighborhood organization that differs from the method employed for any other such organization.

The effective date of this bill is not specified.

### Similar Bills

**House Bill 742** would permanently extend and expand a provision of the Neighborhood Assistance Act that provides a waiver for certain requirements imposed on neighborhood organizations.

**House Bill 917** reduces 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.

**House Bill 1014** and **Senate Bill 422** would increase the annual fiscal year cap for the Neighborhood Assistance Act Tax Credit to \$22 million, with \$11 million allocated to education proposals and \$11 million allocated to other proposals. The bill also eliminates the requirement that at least 10 percent of the available amount of tax credits each year be allocated to neighborhood organizations that did not receive allocations in the preceding year.

**House Bill 1252** would modify the definition of “low-income person” for the purposes of the Neighborhood Assistance Act Tax Credit by reducing the maximum amount of family annual household income that a person can have to be considered a “low-income person” from 300 percent of the current poverty guidelines to 180 percent.

cc : Secretary of Finance

Date: 2/2/2016 JJS  
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