

# DEPARTMENT OF TAXATION

## 2017 Fiscal Impact Statement

1. **Patron** Robert S. Bloxom, Jr.

3. **Committee** House Finance

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

2. **Bill Number** HB 2461

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would reduce the amount of the Neighborhood Assistance Act Tax Credit from 65 percent of the value of donations to neighborhood organizations under current law to 60 percent of such donations for Taxable Year 2018, 55 percent of such donations for Taxable Year 2019, and 50 percent of such donations for Taxable Years 2020 and each taxable 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 no General Fund revenue impact. 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. Based on the amount of credits requested in recent years, the credit cap would continue to be met, even if the credit percentages are reduced.

**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 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 2017:

Fiscal Year	Education Proposals		Other Proposals	
	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
2017	\$18.1 million	\$9 million	\$27.2 million	\$8 million
<b>Total</b>	<b>\$66.4 million</b>	<b>\$34.5 million</b>	<b>\$94.6 million</b>	<b>\$30.5 million</b>

#### Proposed Legislation

This bill would reduce the amount of the Neighborhood Assistance Act Tax Credit from 65 percent of the value of donations to neighborhood organizations for Taxable Years 2012 through 2016 to 60 percent for Taxable Year 2017; 55 percent for Taxable Year 2018; and 50 percent for Taxable Year 2019 and taxable years thereafter.

The effective date of this bill is not specified.

#### Similar Bills

**Senate Bill 1137** is identical to this bill.

**House Bill 1433** would modify the Neighborhood Assistance Act Tax Credit by eliminating the requirement that 10 percent of all available tax credits each year must be set aside for neighborhood organizations that did not receive an allocation of tax credits in the previous year and replace it with a set aside provision that would apply only in years where the cap is increased.

**Senate Bill 1109** would prohibit taxpayers from claiming both a state tax deduction and either the Neighborhood Assistance Act Tax Credit or the Education Improvement Scholarships Tax Credit for the same charitable donation.

**House Bill 1838** would change the process of allocating Neighborhood Assistance Act Tax Credits to neighborhood organizations submitting education proposals by directing the Board of Education to develop regulations that would (i) allow credits to be prioritized for proposals benefiting underperforming school districts in the Commonwealth, (ii) allow for the input of local leaders regarding the education needs of localities in which the proposed programs are located, and (iii) require the inclusion of performance and accountability measures in the proposals.

**Senate Bill 1165** would require that the Department of Education and Department of Social Services consider, in allocating Neighborhood Assistance Act Tax Credits, the past performance of neighborhood organizations that have received allocations of credits.

**Senate Bill 1167** would allocate 20 percent of any unissued Education Improvement Scholarships Tax Credits to education proposals under the Neighborhood Assistance Act Tax Credit program during the next fiscal year.

**Senate Bill 1168** would reorganize the provisions of the Neighborhood Assistance Act Tax Credit program to set out separate sections for the portions of the program administered by the State Department of Social Services and the Department of Education.

cc : Secretary of Finance

Date: 1/23/2017 JJS  
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