

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** T. Monty Mason

3. **Committee** Senate Finance

4. **Title** Neighborhood Assistance Tax Credit; Reduction
in credit amounts

2. **Bill Number** SB 518

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 for individuals and business firms from 65 percent of the value of qualified donations to 60 percent of such donations for Taxable Year 2019, 55 percent of such donations for Taxable Year 2020, and 50 percent of such donations for Taxable Year 2021 and thereafter.

This bill would be effective for taxable years beginning on and after January 1, 2019.

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

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

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") 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, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not "routine." Additionally, the Department 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, the Department will identify the costs at that time.

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

Revenue Impact

This bill would have no General Fund revenue impact. The Neighborhood Assistance Act Tax Credit is subject to an annual credit cap of \$17 million, \$9 million of which is allocated for education proposals and \$8 million of which is allocated for all other proposals. The credit has been oversubscribed for both education and all other proposals for several fiscal years.

Therefore, the Department anticipates that the annual credit cap will continue to be met, if not exceeded, even if the amount of credits each taxpayer may earn is reduced.

For Fiscal Years 2014 through 2018, the credit was oversubscribed as follows:

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
2018	\$13.98 million	\$9 million	\$34.87 million	\$8 million
Total	\$80.38 million	\$43.5 million	\$129.47 million	\$38.5 million

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.

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 thereafter)
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

Proposed Legislation

This bill would reduce the amount of the Neighborhood Assistance Act Tax Credit for individuals and business firms from 65 percent of the value of qualified donations to 60 percent of such donations for Taxable Year 2019, 55 percent of such donations for Taxable Year 2020, and 50 percent of such donations for Taxable Year 2021 and thereafter.

This bill would be effective for taxable years beginning on and after January 1, 2019.

Similar Bills

House Bill 578 is substantially similar to this bill, except the amount of the credit would be reduced to 60 percent for Taxable Year 2018, 55 percent for Taxable Year 2019, and 50 percent for Taxable Year 2020 and thereafter.

Senate Bill 579 would require that 20 percent of any unissued Education Improvement Scholarships Tax Credits be made available to increase the \$9 million annual cap on the amount of Neighborhood Assistance Act Tax Credits that may be approved for education proposals in the following fiscal year.

cc: Secretary of Finance

Date: 1/20/2018 RWC
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