

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Bill R. DeSteph, Jr.

3. **Committee** Senate Finance

4. **Title** Tax Credits Related to Education; Unissued Credits

2. **Bill Number** SB 579

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill 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, beginning with Fiscal Year 2018-2019.

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") 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 Education ("DOE") considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact, beginning in Fiscal Year 2019. For Fiscal Years 2014 through 2017, the Education Improvement Scholarships Tax Credit was underutilized as follows:

Fiscal Year	Credits Issued	Unissued Credit Amount	20 Percent of the Unused Credit Amount
2014	\$1.5 million	\$23.5 million	\$4.7 million
2015	\$3.7 million	\$21.3 million	\$4.3 million
2016	\$6.8 million	\$18.2 million	\$3.6 million
2017	\$9.8 million	\$15.2 million	\$3.0 million
Total	\$21.8 million	\$78.2 million	\$15.6 million

In contrast, the amount of Neighborhood Assistance Act Tax Credits available for education proposals was oversubscribed for Fiscal Years 2014 through 2017 as follows:

Fiscal Year	Credits Requested	Annual Cap	Credit Requests Over Annual Cap
2014	\$11.1 million	\$8.0 million	\$3.1 million
2015	\$17.8 million	\$8.5 million	\$9.3 million
2016	\$19.4 million	\$9 million	\$10.4 million
2017	\$18.1 million	\$9 million	\$9.1 million
Total	\$66.4 million	\$34.5 million	\$31.9 million

Because the Education Improvement Scholarships Tax Credit is currently underutilized and the Neighborhood Assistance Act Tax Credit is oversubscribed, the Department anticipates this bill would result in the allocation of additional Neighborhood Assistance Act Tax Credits in excess of the \$9 million cap for education proposals. If this bill had been effective for Fiscal Years 2014 through 2017, it would have increased the amount of Neighborhood Assistance Act Tax Credits available for allocation to education proposals and reduced General Fund revenue by an average of \$3.9 million per fiscal year. However, the amount of Education Improvement Scholarships Tax Credits issued to taxpayers has been steadily increasing for each fiscal year since Fiscal Year 2014. If that trend continues, the amount of unissued Education Improvement Scholarships Tax Credits that would be available for allocation would go down by a corresponding, but currently unknown, amount.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Education

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. 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 allocated to neighborhood organizations for each fiscal year is subject to an annual cap in the following amounts:

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 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

Education Improvement Scholarships Tax Credits

Taxpayers are permitted to claim Education Improvement Scholarships Tax Credits in an amount equal to 65 percent of the monetary or marketable securities donation they made to a qualifying scholarship foundation. Tax credits are awarded to taxpayers on a first-come, first-served basis. No tax credit is allowed if the donation is less than \$500. No more than \$125,000 in tax credits may be issued to an individual in a taxable year. The \$125,000 limitation does not apply to tax credits issued to any business entity, including a sole proprietorship. The Education Improvement Scholarships Tax Credit is subject to a \$25 million per fiscal year cap.

Proposed Legislation

This bill 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, beginning with Fiscal Year 2018-2019.

The effective date of this bill is not specified.

Similar Bills

House Bill 221 and **Senate Bill 869** would increase the aggregate amount of scholarships for students with a disability to 300 percent of the per pupil amount, and broaden the statutory definition of “eligible student with a disability.”

House Bill 395 would expand the Education Improvement Scholarships Tax Credit by amending the definition of student and increasing the aggregate scholarship amounts for eligible students with a disability or an autism spectrum disorder.

House Bill 1078, **House Bill 1165**, and **Senate Bill 172** would expand the Education Improvement Scholarships Tax Credit to include the qualified educational expenses of eligible pre-kindergarten children. These bills are substantially similar, aside from certain technical and definitional differences.

Senate Bill 553 would decrease the penalty on Scholarship Foundations for failing to meet certain disbursement requirements.

cc: Secretary of Finance

Date: 1/20/2018 RWC
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