

## Department of Planning and Budget 2007 Fiscal Impact Statement

**1. Bill Number** SB1394

<b>House of Origin</b>	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
<b>Second House</b>	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

**2. Patron** Stosch

**3. Committee** Finance

**4. Title** Neighborhood Assistance Act tax credit.

**5. Summary/Purpose:** Makes several changes to the Neighborhood Assistance Act tax credit including (i) moving the tax credit from Title 63.2 to Title 58.1, (ii) increasing the annual cap for tax credits allowed under the program from \$8.0 million to \$12.0 million, (iii) providing that \$1.0 million of the cap increase would be dedicated for education programs and \$3.0 million would be dedicated for donations to a special fund from which grants would be awarded to licensed, private schools for students with disabilities, and (iv) reducing the tax credit percentage for donations made by corporations and individuals from 45 percent to 40 percent along with eliminating the restriction placed upon individuals from claiming a tax credit for the donation if a charitable contribution deduction is also taken.

**6. Fiscal Impact Estimates are:** See Item 8.

**7. Budget amendment necessary:** Yes, Items 333 and 128.

**8. Fiscal implications:** This legislation will impact three different state agencies to varying degrees. The implications for each are discussed below.

Department of Social Services

Currently, the Department of Social Services (DSS) averages approximately 2,200 tax certificates per year (600 donations per year from individuals and approximately 1,600 from businesses). Two full-time staff members are currently responsible for processing this workload.

This bill includes a provision that removes the limitation disallowing a credit when a federal charitable contribution deduction is claimed. It is anticipated that donations will increase as a result of this change. To estimate the potential increase in volume, DSS considered a comparable change that occurred during the period from 7/1/01 through 6/30/02, when individuals received a 100 percent tax credit for donation between \$50 and \$200. During this time, DSS received over 3,200 donations from individuals. It is assumed that allowing individual to receive a tax credit and claim a tax deduction would increase the number of individuals seeking tax certificates to 70 percent of the FY 2002 level, resulting in approximately 2,300 individual donations. When combined with business donations, the number of tax certificates issued annually will total 3,900. This is an 80 percent increase

over the current workload and will require a minimum of one more position. DSS is requesting a Program Administration Specialist I (pay band 4) at a total cost of \$60,792 the first year and \$54,292 each year thereafter. This includes salary and fringe benefits of \$46,722, one-time costs for office furnishings and machines of \$6,500, and operating costs of \$7,570 per year. There is also a slight programming change that will need to be made. This cost can be absorbed when DSS does regular upgrades and maintenance.

DSS also anticipates an increase in the number of non-profit organizations applying to be in the program.

### Department of Taxation

The Department of Taxation does not anticipate the need for additional funding to implement the provisions of this legislation. However, this legislation is expected to have a detrimental impact to revenue for the Commonwealth. The magnitude of the revenue loss associated with this bill is unknown, but may be as large as the \$4.0 million annual increase in the cap for Neighborhood Assistance Act (NAA) credits. The ability of donors to receive a 40 percent credit in addition to a charitable donation deduction on their federal and Virginia income tax returns may attract significantly more donations.

### Department of Education

The Department of Education anticipates that this legislation will have the following administrative impact on the agency:

- **Regulations** – The bill requires the Board to develop regulations for the equitable distribution of the \$3.0 million in tax credits, including when donations exceed the \$3.0 million limit.
- **Application Process** – The department would be required to establish and administer a process to review and approve applications from eligible schools. The process would need to include the establishment of criteria to determine whether to award a grant to an eligible private school and the annual review and evaluation of submitted applications.
- **Grant Disbursement** – The department would be responsible annually for approving grant payments and ensuring that eligible schools receive these payments.
- **Fund Administration** – The department would be responsible for depositing all funds received from donations and for ensuring that disbursements do not exceed balances.
- **Tax Credit Administration** – The department would be responsible annually for examining all monetary donations from taxpayers and issuing appropriate tax credit documentation to these individuals/organizations. Furthermore, the department would also be responsible for transmitting any needed information to the Department of Taxation for its record-keeping purposes.

At this time, the number of individuals/organizations that will make donations to the fund is unknown. The 2006 General Assembly provided the department with two positions and funding for the purposes of administering the fund, beginning on July 1, 2007. Further analysis of the above workload responsibilities results in the need for one additional professional position in the Department of Education at an estimated cost of \$102,790. This

estimate is based on an annual salary of \$75,000, fringe benefits costs of \$22,790, and nonpersonal services costs of \$5,000.

**9. Specific agency or political subdivisions affected:** Department of Social Services, Department of Taxation, and Department of Education.

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

**11. Other comments:** There is no fiscal impact associated with moving the program in the *Code of Virginia* from §63.2 to §58.1.

**Date:** 1/31/07 / SHD

**Document:** G:\FIS\2007 Session\SB1394.DOC

cc: Secretary of Education