

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** Tony O. Wilt

2. **Bill Number** HB 340

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Neighborhood Assistance Act Tax Credit;
Auxiliary, Subsidiary, and Subordinate
Organizations

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow an auxiliary, subsidiary, or subordinate organization of a tax-exempt nonprofit organization to be allocated tax credits under the Neighborhood Assistance Act, regardless of whether the entity holds a ruling that it is exempt from income taxation under the federal law. The auxiliary, subsidiary, or subordinate organization would be deemed an affiliate of the tax-exempt organization under which it is controlled for purposes of limiting the aggregate amount of tax credits that can be approved to a grouping of neighborhood organization affiliates.

The affiliate would be required to meet all of the conditions and requirements that neighborhood organizations must meet for an allocation of tax credits. In addition, the affiliate would be required to include information that clearly establishes that it is controlled by a tax-exempt nonprofit organization in its proposal for an allocation of tax credits.

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:**

Department of Taxation Administrative Impact

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

Department of Social Services Administrative Impact

The Department of Social Services reports that its administration of the Neighborhood Assistance Tax Credit program would not be directly affected by this change.

Revenue Impact

This bill would have no revenue impact because this credit is capped at \$11.9 million, with \$4.9 million being allocated to education proposals and \$7 million to all other proposals. The number of organizations and programs eligible to qualify for this credit would be increased, however.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Social Services

10. Technical amendment necessary: No.

11. Other comments:

Current Law

The Virginia Neighborhood Assistance Act provides an income tax credit to businesses 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 ("DSS") and the Department of Education ("DOE") are responsible for approving the programs and allocating the tax credits to the neighborhood organizations. When an individual or business donates to an organization that qualifies as a neighborhood organization, they are eligible to receive an income tax credit from that neighborhood organization.

A neighborhood organization is defined as any local, regional or statewide organization whose primary function is providing neighborhood assistance for impoverished people, and holding a ruling from the Internal Revenue Service of the United States Department of the Treasury that the organization is exempt from income taxation under the provisions of §§ 501(c)(3) and 501(c)(4) of the Internal Revenue Code of 1986, as amended from time to time, or any organization defined as a community action agency in the Economic Opportunity Act of 1964 (42 U.S.C. § 2701 et seq.), or any housing authority as defined in § 36-3.

A business contributing to an approved Neighborhood Assistance Act Program organization is eligible for an income tax credit equal to 40 percent of the contribution. However, the 2010-2012 Appropriation Act allows businesses to claim a credit equal to 45 percent of the qualifying donations. The minimum tax credit that may be issued to a business contribution is \$400. A contributing business may take a maximum of \$175,000 Neighborhood Assistance Act Program credits in a taxable year.

An individual who contributes directly to an approved Neighborhood Assistance Act Program organization is also eligible for an income tax credit equal to 40 percent of the contribution. The minimum donation by an individual must be at least \$500, and the maximum tax credit is \$50,000.

The total amount of credits that may be granted for each fiscal year is \$11.9 million. Out of this amount \$4.9 million is allocated to education proposals, while the remaining \$7 million is allocated to all other proposals. No credits may be issued after July 1, 2014.

Proposal

This bill would allow an auxiliary, subsidiary, or subordinate organization of a 501(c)(3) or 501(c)(4) nonprofit organization to be allocated tax credits under the Neighborhood Assistance Act, regardless of whether the entity holds a ruling that it is exempt from income taxation under the federal provisions of 501(c)(3) and 501(c)(4). The auxiliary, subsidiary, or subordinate organization would be deemed an affiliate of the 501(c)(3) or 501(c)(4) organization under which it is controlled for purposes of limiting the aggregate amount of tax credits that can be approved to a grouping of neighborhood organization affiliates.

The affiliate would be required to meet all of the conditions and requirements that neighborhood organizations must meet for an allocation of tax credits. In addition, the affiliate would be required to include information that clearly establishes that it is controlled by a 501(c)(3) or 501(c)(4) nonprofit organization in its proposal for an allocation of tax credits.

The effective date of this bill is not specified.

Other Legislation

House Bill 276 and Senate Bill 368 would expand the professional services eligible for tax credits under the Neighborhood Assistance Act to include services provided by mediators certified by the Judicial Council of Virginia.

Senate Bill 241 would eliminate the sunset date, increase the credit percentage to 64%, expand student eligibility criteria, and establish an educational scholarship fund.

cc : Secretary of Finance

Date: 1/15/2012 tlg
HB340F161