

DEPARTMENT OF TAXATION

2017 Fiscal Impact Statement

1. **Patron** Peter F. Farrell

2. **Bill Number** HB 1433

House of Origin:

 Introduced

 Substitute

 Engrossed

3. **Committee** Senate Finance

4. **Title** Neighborhood Assistance Act Tax Credits;
Allocation of Credits

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill 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. In its place, this bill would impose a requirement that, in any year in which the available amount of tax credits exceeds the previous year's available amount, 10 percent of all tax credits created by the increase in available tax credits must be set aside for neighborhood organizations that did not receive an allocation of tax credits in the previous year. This would allow a set aside of tax credits for new organizations only in years during which there is an increase in funding for the Neighborhood Assistance Act Tax Credit program.

The effective date of this bill is not specified.

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 impact on General Fund revenue. 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. While this bill might affect which neighborhood organizations

receive an allocation of credits, this bill would have no impact on General Fund revenue because the total amount of tax credits may not exceed the annual fiscal year cap.

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:

	FY 2014	FY 2015	FY 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

The Department of Social Services and the Department of Education are authorized to adopt regulations or, in the case of the Department of Education, guidelines for the approval or disapproval of proposals by neighborhood organizations and for determining the value of the donations. Such regulations or guidelines must provide for the equitable allocation of the available amount of tax credits among the approved proposals submitted by neighborhood organizations. The regulations or guidelines must also provide a set-aside for neighborhood organizations that did not receive allocations in the preceding year by requiring that at least 10 percent of the available amount of tax credits each year be allocated to qualified programs proposed by such organizations. However, if the amount of tax credits for qualified programs requested by such neighborhood organizations is less than 10 percent of the available amount of tax credits, the unallocated portion of such 10 percent of the available amount of tax credits may be allocated to qualified programs proposed by other neighborhood organizations.

Proposed Legislation

This bill 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. In its place, this bill would impose a requirement that, in any year in which the available amount of tax credits exceeds the previous year's available amount, 10 percent of all tax credits created by the increase in available tax credits must be set aside for neighborhood organizations that did not receive an allocation of tax credits in the previous year.

This bill would allow a set aside of tax credits for new organizations only in years during which there is an increase in funding for the Neighborhood Assistance Act Tax Credit program. Currently, the available amount of tax credits for each fiscal year is subject to an annual cap of \$9 million for education proposals and \$8 million for all other proposals. Since these annual caps are not scheduled to increase, there would be no set aside of tax credits under this bill, until such time that the General Assembly enacts legislation raising the annual cap on Neighborhood Assistance Act Tax Credits.

The effective date of this bill is not specified.

Similar Bills

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 credits to neighborhood organizations submitting education proposals by directing the Board of Education to develop regulations that would allow credits to be prioritized for proposals benefiting underperforming school districts in the Commonwealth, that would allow for the input of local leaders regarding the education needs of localities in which the proposed programs are located, and that would require the inclusion of performance and accountability measures in the proposals.

Senate Bill 1165 would require that the Commissioner of Social Services and the Superintendent of Public Instruction consider, in allocating credits under the Neighborhood Assistance Act tax credit program, the past performance of organizations requesting credits, pursuant to accountability measures established in regulations or guidelines.

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: 2/3/2017 JJS
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