

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Robert S. Bloxom, Jr.

3. **Committee** House Finance

4. **Title** Neighborhood Assistance Act Tax Credits;
Decrease in Credit Value

2. **Bill Number** HB 578

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 from 65 percent of the value of donations to neighborhood organizations under current law to 60 percent of such donations for Taxable Year 2018, 55 percent of such donations for Taxable Year 2019, and 50 percent of such donations for Taxable Years 2020 and each taxable year thereafter.

This bill would be effective for taxable years beginning on and after January 1, 2018.

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") considers implementation of this bill as routine, and does not require additional funding. The Department of Education ("DOE"), was unable to determine its costs at this time.

Revenue Impact

This bill would have no General Fund revenue impact. 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. Based on the amount of credits requested in recent years, the credit cap would continue to be met, even if the credit percentages are reduced.

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. 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 Department of Education approves programs and allocates available tax credits to neighborhood organizations making education proposals, and the Department of Social Services approves programs and allocates available tax credits to neighborhood organizations making all other proposals. No neighborhood organization or group of neighborhood organization affiliates are to receive in excess of \$0.82 million (for education proposals) or \$0.5 million (for all other proposals) in aggregate tax credits. 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 amount of the tax credit for a business firm that donates money, property, professional services, or business contracting services to a neighborhood organization for an approved program is equal to 65 percent of the value of the such donation. A business firm may by written agreement accept a credit percentage of less than 65 percent. No tax credit is granted for any donation made in a taxable year with a value of less than \$616.

The amount of the credit for an individual who makes a donation of money or marketable securities to a neighborhood organization for an approved program is equal to 65 percent of the value of such donation. An individual may also by written agreement accept a credit percentage of less than 65 percent. 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.

	Business Firm		Individual	
	Donation Made	Tax Credit Received	Donation Made	Tax Credit Received
Maximum Permitted	\$26.15 million	\$17 million	\$125,000	\$81,250
Minimum Required	\$616	\$400	\$500	\$325

The Neighborhood Assistance Act Tax Credit is currently oversubscribed. The chart below lists the amount of credits requested by neighborhood organizations wishing to obtain an allocation of credits and the annual credit cap for Fiscal Years 2014 through 2018:

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	\$127.47 million	\$38.5 million

Proposed Legislation

This bill would reduce the amount of the Neighborhood Assistance Act Tax Credit from 65 percent of the value of donations to neighborhood organizations for Taxable Years 2012

through 2017 to 60 percent for Taxable Year 2018; 55 percent for Taxable Year 2019; and 50 percent for Taxable Year 2020 and taxable years thereafter.

The effective date of this bill is not specified.

Similar Bills

Senate Bill 518 is substantially similar to this bill, but delays the reduction to the amount of the Neighborhood Assistance Act Tax Credit from 65 percent of the value of donations to 60 percent for Taxable Year 2019, 55 percent of such donations for Taxable Year 2020, and 50 percent of such donations for Taxable Years 2021 and each taxable year thereafter.

Senate Bill 579 would allocate 20 percent of any unissued credits in a fiscal year under the Education Improvement Scholarships Tax Credit program to the Neighborhood Assistance Act Tax Credit program during the next fiscal year to be allocated to education proposals.

cc : Secretary of Finance

Date: 1/16/2018 RWC
DLAS File HB578F161