

# DEPARTMENT OF TAXATION

## 2019 Fiscal Impact Statement

1. **Patron** Emmett W. Hanger, Jr.

3. **Committee** Senate Finance

4. **Title** Neighborhood Assistance Act Tax Credit;  
Qualified Neighborhood Organizations

2. **Bill Number** SB 1754

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would allow a neighborhood organization participating in the Neighborhood Assistance Act Tax Credit program and submitting education proposals to satisfy the requirement that at least 50 percent of the organization's revenues are required to be used to provide services to low-income persons or eligible students with disabilities by showing that these services were either provided directly by the organization or were provided through the provision of funds to other organizations and groups providing such services. In addition, this bill would allow a participating neighborhood organization submitting education proposals to satisfy the requirement that at least 50 percent of the persons served by the neighborhood organization must be low-income persons or eligible students with disabilities by showing that this requirement is met directly by the neighborhood organization or that this requirement is met through the provision of revenues to other organizations or groups serving such persons. Current law does not specify whether such requirements may be met through the provision of revenues to other organizations and groups providing such services.

The bill also would clarify that individuals are eligible for Neighborhood Assistance Act Tax Credits for monetary donations and donations of marketable securities made to an approved neighborhood organization that are submitting education proposals.

The bill also would amend the definitions of "low-income person" and "eligible student with a disability" to require that such individuals be residents of Virginia for purposes of the credit.

If enacted during the 2019 Regular Session of the General Assembly, this bill would become effective July 1, 2019.

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 General Fund revenue impact.

### **9. Specific agency or political subdivisions affected:**

Department of Taxation  
Department of Education  
Department of Social Services

### **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.

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:

|                     | <b>FY 2014</b>      | <b>FY 2015</b>      | <b>FY 2016<br/>(and after)</b> |
|---------------------|---------------------|---------------------|--------------------------------|
| Education Proposals | \$8 million         | \$8.5 million       | \$9 million                    |
| Other Proposals     | \$7 million         | \$7.5 million       | \$8 million                    |
| <b>TOTAL</b>        | <b>\$15 million</b> | <b>\$16 million</b> | <b>\$17 million</b>            |

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 2019:

|                    | <b>Education Proposals</b> |                       | <b>Other Proposals</b>   |                       |
|--------------------|----------------------------|-----------------------|--------------------------|-----------------------|
| <b>Fiscal Year</b> | <b>Credits Requested</b>   | <b>Annual Cap</b>     | <b>Credits Requested</b> | <b>Annual Cap</b>     |
| 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           |
| 2019               | \$14.15 million            | \$9 million           | \$42.97 million          | \$8 million           |
| <b>Total</b>       | <b>\$94.53 million</b>     | <b>\$52.5 million</b> | <b>\$172.44 million</b>  | <b>\$46.5 million</b> |

For the purposes of education proposals, the credit is only allowed if at least 50 percent of the persons served by the neighborhood organization or its affiliates are low-income persons or eligible students with disabilities and at least 50 percent of the neighborhood organization's revenues are used to provide services to low-income persons or to eligible students with disabilities. Expenditures for teacher salaries may count toward the requirement that at least 50 percent of revenues be used to provide services to low-income persons or to eligible students with disabilities. According to DOE's Guidelines for the Neighborhood Assistance Act Tax Credit Program for Education, the neighborhood organization and each affiliate must be able to demonstrate, on a schedule provided by the DOE that at least 50 percent of its total revenues were used, or will be used, including any expenditures for teacher salaries, to provide services to low-income persons or eligible students with disabilities.

#### Proposed Legislation

This bill would allow a neighborhood organization participating in the Neighborhood Assistance Act Tax Credit program and submitting education proposals to satisfy the requirement that at least 50 percent of the organization's revenues are required to be used to provide services to low-income persons or eligible students with disabilities by showing that these services were either provided directly by the organization or were provided through the provision of funds to other organizations and groups providing such services. In addition, this bill would allow a participating neighborhood organization submitting education proposals to satisfy the requirement that at least 50 percent of the persons served by the neighborhood organization must be low-income persons or eligible students with disabilities by showing that this requirement is met directly by the neighborhood organization or that this requirement is met through the provision of revenues to other organizations or groups serving such persons. Current law does not specify whether such requirements may be met through the provision of revenues to other organizations and groups providing such services.

The bill also would clarify that individuals are eligible for Neighborhood Assistance Act Tax Credits for monetary donations and donations of marketable securities made to an approved neighborhood organization that are submitting education proposals.

The bill also would amend the definitions of “low-income person” and “eligible student with a disability” to require that such individuals be residents of Virginia for purposes of the credit.

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#### Similar Legislation

**Senate Bill 1730** would allow a neighborhood organization to qualify to receive an allocation of tax credits from the Department of Education if at least 50 percent of the neighborhood organization's revenues are used to provide services to low-income persons or eligible students with disabilities either directly by the organization or through the provision of funds to other organizations and groups providing such services.

**House Bill 2351** and **Senate Bill 1365** would broaden the eligibility criteria with respect to the Education Improvement Scholarships Tax Credit for students with a disability and would increase the aggregate amount of scholarships that may be provided to such students.

**House Bill 2459** and **Senate Bill 1015** would expand the Education Improvement Scholarships Tax Credit so that scholarship foundations would be permitted to award scholarships to eligible pre-kindergarten children.

**Senate Bill 1160** would make changes to the Neighborhood Assistance Act tax credit program, as it relates to educational services, and the Education Improvement Scholarships Tax Credit program.

cc : Secretary of Finance

Date: 1/27/2019 JLOF  
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