

# DEPARTMENT OF TAXATION

## 2024 Fiscal Impact Statement

1. **Patron** Rodney T. Willett

3. **Committee** House Finance

4. **Title** Communities of Opportunity Tax Credit

2. **Bill Number** HB 1203

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would increase the maximum amount of tax credits that may be issued under the Communities of Opportunity Tax Credit, from \$250,000 to \$1 million each fiscal year beginning on and after July 1, 2024.

If enacted during the 2024 General Assembly session, this bill would become effective on July 1, 2024.

### 6. **Budget amendment necessary:** Yes.

Item(s): 102, DHCD Housing Assistance Services

### 7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

#### 7a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2024-25	\$150,000	1	GF
2025-26	\$150,000	1	GF
2026-27	\$150,000	1	GF
2027-28	\$150,000	1	GF
2028-29	\$150,000	1	GF
2029-30	\$150,000	1	GF

### 8. **Fiscal implications:**

#### Administrative Costs

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

The Department of Housing and Community Development ("DHCD") estimates that this bill would result in \$150,000 per year in additional costs beginning in Fiscal Year 2025. DHCD would incur additional administrative expenses to implement this bill including the hiring of one additional full-time employee.

## Revenue Impact

This bill could have an unknown negative General Fund revenue impact beginning in Fiscal Year 2025. Based on historical data, approximately \$170,000 in tax credits have been claimed annually on average over the last five fiscal years. However, the credit was amended in 2022 to expand the credit to all census tracts located in Virginia in which less than 10 percent of the residents live below the poverty level. Previously, the credit was limited to census tracts in the Richmond Metropolitan, Virginia Beach-Norfolk-Newport News Metropolitan, and Washington-Arlington-Alexandria Metropolitan Statistical Areas in which less than 10 percent of the residents live below the poverty level. As a result, the proposed change would have a negative unknown revenue impact, but such impact would not exceed the \$750,000 cap increase proposed by this bill.

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

Department of Taxation  
Department of Housing and Community Development

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

### **11. Other comments:**

#### Communities of Opportunity Tax Credit

During the 2010 Session, the General Assembly established the Communities of Opportunity Tax Credit for landlords with qualified housing units located in census tracts with poverty rates of less than 10 percent in the Richmond Metropolitan Statistical Area who participate in a housing choice voucher program. The credit was expanded in 2019, 2020, and 2022 to cover qualified housing units in more locations, and now includes qualified housing units in all census tracts located in Virginia with poverty rates of less than 10 percent.

The amount of tax credit for an eligible property is based on 10 percent of annual fair market rent for that specific unit and prorated when units are qualified for less than the full taxable year. For purposes of the credit, a “qualified housing unit” includes a dwelling unit that is located in an eligible housing area for which a portion of the rent is paid by a housing authority, and payment is pursuant to a housing choice voucher program.

The tax credit was initially capped at \$450,000, but the cap was reduced during the 2013 General Assembly Session to \$250,000. In the event that the amount of the qualified requests for tax credits in a fiscal year exceeds the \$250,000 cap, all qualified applicants receive a prorated tax credit amount.

The table below shows the amount of this tax credit that has been claimed in the last five fiscal years:

Fiscal Year	Number of Credits Claimed	Amount Claimed
FY 2019	0	\$0
FY 2020	23	\$62,490
FY 2021	19	\$101,974
FY 2022	63	\$392,693
FY 2023 (preliminary)	40	\$287,064

Please note that the above chart represents the amount of tax credits claimed, which includes carryovers from credits awarded in prior years and subject to a prior year's cap.

#### Proposed Legislation

This bill would increase the maximum amount of tax credits that may be issued under the Communities of Opportunity Tax Credit, from \$250,000 to \$1 million each fiscal year beginning on and after July 1, 2024.

If enacted during the 2024 General Assembly session, this bill would become effective on July 1, 2024.

#### Similar Legislation

**SB 512** would establish a nonrefundable income tax credit for the expenses incurred in converting office buildings to residential uses that include affordable housing.

**HB 1096** would increase the cap on the Housing Opportunity Tax Credit from \$60 million to \$100 million per calendar year and change the multi-year cap from \$255 million to \$375 million.

cc : Secretary of Finance

Date: 1/28/2024 ALS  
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