

Comparison of Present Neighborhood Assistance Tax Credit Programs
With The Proposed Virginia Plan*

	Pen .	Missouri	Indiana	Proposed Virginia Plan H.B. 1978
Qualifications	Any business firm subject to "the corporate net income tax" providing investments in impoverished areas for neighborhood assistance, individual job training, education, community services or crime prevention.	Any business firm subject to "the state income tax" and insurance companies and express companies subject to the gross receipts tax which contribute to neighborhood organizations, provide job training, education, community services or crime prevention in an impoverished area.	Any business firm or person subject to "the state income tax" who contributes to a neighborhood organization or who engages in the activities of providing neighborhood assistance, job training or education for individuals not employed by the individual or firm in an economically disadvantaged area.	Any business firm subject to the state corporate income tax offering neighborhood assistance and providing job training education, crime prevention and community services to neighborhood organizations to benefit individual living in impoverished area.
Certifying Authority	Department of Community Affairs	Department of Consumer Affairs	Department of Commerce	Department of Welfare/ Department of Housing and Community Development.
Amount of Credit	Up to 50% of Contribution	Up to 50% of Contribution	Up to 50% of Contribution	Up to 50% of Contribution
Individual Taxpayer Limit	\$250,000 per year for any firm.	\$250,000 per year for any firm.	\$25,000 per year for any firm or individual.	\$175,000 per year for any firm

Comparison of Present Neighborhood Assistance Tax Credit Programs
With the Proposed Virginia Plan (Continued)

	Penn.	Missouri	Indiana	Proposed Virginia Plan H.B. 1978
Total program limits	\$8.75 million	\$8.75 million	\$1 million	\$8.75 million
Carry over applica- bility	5 years	5 years	none	5 years
Special features	Credit of up to 70% is available to firms contri- buting to priority programs.	Credit of up to 70% is available to firms contri- buting to priority programs.	None	None

*Source: Commerce Clearing House Reports.



COMMONWEALTH of VIRGINIA

DEPARTMENT OF
HOUSING AND COMMUNITY DEVELOPMENT

July 27, 1979

O. GENE DISHNER
DIRECTOR

Fourth Street Office Building
205 North Fourth Street
Richmond, Virginia 23219
(804) 786-1575

MEMORANDUM

TO: Members of the Joint Subcommittee Studying the Feasibility of
Adopting an Income Tax Credit for Investments Under the
Neighborhood Assistance Act

FROM: O. Gene Dishner

A handwritten signature in cursive script, appearing to read "Gene Dishner", written over the printed name.

The Board of Housing and Community Development's position on the
Neighborhood Assistance Act--House Bill No. 1768--is presented for the
Subcommittee's review. This paper reflects the viewpoint of the Board
of Housing and Community Development. The position of the Administra-
tion has not been developed yet.

OGD:clt

Attachment

POSITION PAPER
for the
JOINT SUBCOMMITTEE ESTABLISHED TO STUDY THE
NEIGHBORHOOD ASSISTANCE ACT

H.B. 1768

Summary of Proposed Legislation

The Neighborhood Assistance Act, as introduced in the 1979 General Assembly, provides a tax credit for private businesses and corporations offering community services or making donations to approved neighborhood organizations in designated impoverished areas. A tax credit is allowed up to 50% of the amount invested, not to exceed \$175,000 for each business. The law would allow \$1,750,000 of tax credit during the program's first fiscal year. For each year that the program was in operation, the tax credit could increase by this same amount until the total annual tax credit had reached \$8,750,000 which thereafter would become the annual limit.

To be eligible, an impoverished area must be approved by the Department of Welfare, and the Department of Housing and Community Development. Participating neighborhood organizations must be tax exempt under the Internal Revenue Service Code. The Commissioner of Department of Welfare would approve the business firms' proposals for neighborhood assistance, the Director of the Department of Housing and Community Development would certify these approved proposals to the State Tax Commissioner, who would then grant a tax credit. The Commissioner would be authorized to promulgate rules for the approval of such proposals.

Rationale for and Purpose of Proposal

The Commonwealth is concerned with the welfare of its less fortunate citizens. Primary emphasis is placed on assisting them to increase their productivity so as to improve their standard of living. Any direct investment by business for neighborhood assistance, job training, education, crime prevention, medical care, and community services would be of benefit toward this end. Consequently, the rationale behind this legislation is to stimulate such business investments through a tax incentive mechanism, for the general purpose of aiding those of lower incomes.

Fiscal and Personnel Notation

Bill Number: H. B. 1768

Chief Patron: Scott, R.C.

Bill Summary: The Neighborhood Assistance Act provides a tax credit for businesses that invest in impoverished areas in the State. The tax credit would be equal to 50% of the amount invested, with an annual

APPENDIX C (con't)

limit per business of \$175,000. The program would be administered by the Departments of Welfare, Housing and Community Development, and Taxation.

Agency: Department of Housing and Community Development

	<u>FY 1979-80</u>	<u>FY 1980-81</u>	<u>FY 1981-82</u>	<u>FY 1982-83</u>
Expenditures	-0-	\$100,000	\$110,000	\$121,000
Personnel (Additional)	-0-	-4 1/2-	-4 1/2-	-4 1/2-
Salaries (Additional)	-0-	\$ 56,000	\$ 61,600	\$ 67,760

Recommendations

The Board of Housing and Community Development at its June, 1979 meeting unanimously voted to support the enactment of the Neighborhood Assistance Act for Virginia. The Board and Department believe this legislation will benefit citizens of the Commonwealth, particularly the distressed communities and neighborhoods within rural and urban Virginia.

However, while supporting the Neighborhood Assistance Act in concept, the Board and Department do recognize certain deficiencies in H.B. 1768 introduced last year. The following changes are recommended to address these areas of concern:

1. The legislation needs to distinguish between human resource and physical resource development programs that would receive funding through the Neighborhood Assistance Act. The Act is ambiguous as to whether the tax credits would be used to strengthen human service delivery to low and moderate income residents of impoverished areas, or to improve the physical facilities and services provided to these areas.
2. Wording should be incorporated into the legislation to define the term "neighborhood" so that targeting of tax credits can be limited to specific geographical areas.
3. The responsibility for the administration of the Act should be assigned to a single State agency. Dividing this responsibility among several agencies could affect the efficiency and effectiveness of the program's administration. The Department of Housing and Community Development would be an appropriate agency to assume this responsibility if the legislative intent is physical resource development.
4. The Board of Housing and Community Development should be vested with the regulatory and certification powers for implementing the Act rather than the Director of the Department. The Board is statutorily established as the policy and regulatory body of the Department of Housing and Community Development and should maintain this authority within the proposed legislation.

5. The legislation should specify that local governments must approve, and regional planning district commissions review, plans for investment within their jurisdiction. Without such review and approval, activities could be undertaken by neighborhood organizations or groups that were contrary or duplicative of existing programs and services provided within the community.
6. The administrative process for the program should be changed to reduce administrative costs. An alternative administrative process could include:
 - A. Board of Housing and Community Development sets policy and regulations regarding this program.
 - B. Local government designates impoverished areas based on State criteria.
 - C. Private businesses within the Commonwealth propose investment plans within neighborhoods.
 - D. The locality requests the local planning district commission to review and comment on such plans.
 - E. The locality reviews and approves the plan.
 - F. The locality forwards approved plans to the Department of Housing and Community Development.
 - G. The Department of Housing and Community Development certifies the plans, neighborhoods, and neighborhood organizations involved.
 - H. Certified plans are forwarded to the Department of Taxation for application of credit.

Analysis of Legislation

It is evident from the proposed legislation, that the Department of Housing and Community Development would have somewhat of an overlapping responsibility in the administration of the Neighborhood Assistance Act. The two agencies have two distinctly different missions and responsibilities relative to the services that they provide.

The Department of Housing and Community Development is oriented toward the physical rather than the human resource development of the Commonwealth of Virginia and her localities. The act is somewhat ambiguous as to the primary purpose of the proposed tax credits. Whether they are to be used to strengthen human service delivery to low to moderate income people of impoverished areas or to assist in the upgrading of the physical facilities and services provided to impoverished areas.

While the act discusses neighborhood organization and neighborhood assistance, the act does not clearly define what is a neighborhood. The Department interprets this term to mean a small geographic area within a political subdivision of the State, having its own identity relative to geographic, social, economic or other characteristics. Without a specific definition of a neighborhood, it will be hard to establish specific criteria in determining areas within the Commonwealth of Virginia eligible for assistance.

The act provides authority to the Director of the Department and the Department itself for the certification of areas and plans of investment of private businesses.

The policy and regulatory body of the Department is the Board of Housing and Community Development. This body has regulatory powers in the promulgation and adoption of the State Uniform Building Code and Industrialized Building Code. It seems inappropriate to vest regulatory and certification powers to the Director of the Department when the Board of Housing and Community Development is established statutorily to carry out these functions. The Director is responsible for carrying out such policies and regulations established by the Board.

The Neighborhood Assistance Act does not include local governments or regional planning bodies in the process of designating areas or approval of plans for private investment within the community. Thus, without some review and approval at both the local and regional level, activities could be undertaken by neighborhood organizations or groups that were contrary or duplicative of existing programs and services provided within the community.

The current legislation is silent as to the types of services that would be eligible for investment under the Neighborhood Assistance Act or whether the investment would have to be cash or in-kind contribution. The legislation is silent on several other administrative areas: 1) program monitoring 2) audit standards 3) fiscal reportings.

It is assumed from the title and the purpose of the act, that targeting of funds to selected communities and more particular small geographic areas within selected communities would be the purpose of the legislation. Currently there is no direction given as to what types of communities or services are to receive priority. It would be helpful to provide some legislative guidance as to the State priorities when authorizing tax credits.

Approved contributions on the Neighborhood Assistance Act can be used as non-federal share (local match) against other federal programs targeted to a particular neighborhood or community, such as Title 20 and EMS services, UMTA, EDA, Coastal Plains Regional Commission, etc. Use of non-federal contributions through the Neighborhood Assistance Act would make these programs less of a burden on local tax dollars. Funding of a community organization through

Neighborhood Assistance Act would allow activities to be carried out not now allowed under various federal programs. Thus, the Neighborhood Assistance Act could be used cooperatively to assist other federal and state programs in upgrading neighborhoods if there is an overall plan or investment strategy for that community or neighborhood.

The Neighborhood Assistance Act could have negative impacts upon charitable organizations currently receiving donations and contributions from businesses. Often a business within a community will provide a donation to a charitable organization within their community based upon a simple request. If the Neighborhood Assistance Act is enacted there may be the redistribution of charitable contributions to organizations approved under the Neighborhood Assistance Act. This possible impact could be felt, if the impoverished area was a large geographic unit. Such charitable organizations as United Fund, Boy Scouts, Heart Fund, Cancer Society, etc. could be affected by the diversion of business contributions to certified neighborhood organizations.

Though no similar program is operated in Virginia, traditionally, non-profit and/or limited dividend corporations have received preferential treatment by various state and federal legislation. Often, these organizations receive direct subsidies and are eligible to receive grants and loans under numerous state and federal programs.

DEPARTMENT OF WELFARE
INPUT TO THE JOINT SUBCOMMITTEE
ESTABLISHED TO STUDY THE
NEIGHBORHOOD ASSISTANCE ACT
IN RESPONSE TO
HOUSE JOINT RESOLUTION NO. 276

William L. Lukhard
Commissioner

August 6, 1979

Introduction

This document has been drafted by the State Department of Welfare in response to the request of the Joint Subcommittee. The Department was asked to identify.....

1. The impact of the Neighborhood Assistance Act upon the Department;
2. Administrative costs which would be incurred by the Department, including staffing needs;
3. Problems in the Bill as drafted; and
4. How the legislation might be changed.

The Department's responses to these questions are based upon the Neighborhood Assistance Act as introduced during the 1979 General Assembly Session as House Bill No. 1768.

Impact Upon The Department

The most obvious impact of HB 1768 upon the Department of Welfare relates to the Department's responsibility to.....

1. approve "impoverished areas";
2. approve tax credit proposals; and
3. promulgate rules and regulations for the approval or disapproval of such proposals.

To perform these totally new functions, the Department would need appropriate staff and funding. These impacts are further explained in the section below.

Without regard to the Department's administrative responsibilities under the Neighborhood Assistance Act, the Bill would also impact certain welfare programs in Virginia. The definitions of neighborhood assistance, job training, education, community services or crime prevention are broad and flexible enough to permit the tax credit to apply to many welfare related services. In such circumstances, certain welfare program efforts might be duplicated by services established with tax credit funds, or the services might even be established in competition or in conflict with existing programs. Furthermore, certain services established through the Act to assist individuals might actually influence their eligibility qualifications for welfare programs. These potentially adverse impacts could exist for other agencies and programs as well; however they might be minimized and/or controlled by the criteria established in the rules and regulations according to which the proposals would be approved or disapproved.

The Neighborhood Assistance Act could be a very positive force in the establishment of new programming to benefit persons in need in the Commonwealth. Services and programs established in accordance with federally or state-identified criteria do not always accurately reflect needs in a given community. Gaps in service delivery exist, and such gaps differ among communities. The Neighborhood Assistance Act will facilitate the local closure of those gaps. Furthermore, the services established would not have to be long term. Their existence could be much more closely tied to the length of need in the community.

The provisions of HB 1768 could significantly impact welfare clients and many others in a community by permitting program expansion which might not otherwise be possible. For example, the tax credit funds could act as the local and/or state match for funds provided by Title XX of the Social Security Act and federal grants of many types. Such matching funds may be difficult to obtain from the local governing body.

Administrative Costs/Staff Needs

As HB 1768 was introduced, certain responsibilities were placed upon three agencies -- the Department of Welfare, the Department of Housing and Community Development and the Department of Taxation. Each of the agencies would require staff to insure appropriate implementation. The Department of Welfare projects that the Act would necessitate the establishment of two positions, one professional and one clerical. These positions would be located in the Department's Central Office in Richmond. Frequent travel would be required of the professional positions to implement the Act effectively statewide; however, the Department's existing regional operations can provide critical assistance and consultation to local communities, organizations and businesses. The projected costs for the two new staff positions would total \$30,000 per year, which includes salary, benefits and travel. No additional funds would be required for the regional offices, where current staff can assume the consultative responsibilities.

Problems In The Bill As Drafted

The Department of Welfare is concerned about many issues in the Bill. The following issues might be dealt with administratively or legislatively:

1. More precise and specific definitions of terms are needed.
2. Time limits should be placed upon the length and amount of support which can be provided by one firm for one proposal.
3. Proposals which might require longer term funding than that available through the Act should identify potential sources of continued funding at the time of the original application.
4. Should the focus of the Act be upon an "impoverished area" or an "impoverished person"? More guidance is needed as to how

either determination would be made. Economic factors might not be the only criteria for impoverished conditions.

5. The Act does not specify any geographic limitations upon the sponsoring firm and the neighborhood receiving its support.
6. Should the Department of Welfare be the agency to establish relevant criteria for approving tax credits which relate to other programming (that is, programming which is not welfare-related) and to individual community needs? Should other agencies be involved in the regulatory process? Should local input regarding proposals be required? How would such input be provided?
7. Accountability of programs and services established is essential and appropriate procedures should be built into the Act. This might require additional administrative requirements, staffing and, therefore, costs.
8. How do the certification responsibilities of the Department of Housing and Community Development relate to the approval responsibilities of the Department of Welfare?

Legislative Changes

Any of the issues, problems and questions identified in the above section might result in amendments to HB 1768. Otherwise, the Department of Welfare does make the following recommendations regarding legislative change:

1. The Bill should specify that the agency to offer the service, etc., should have the organization and expertise to carry it out.
2. A minimum amount of tax credit money should be involved in any approved request; if not, the processing and monitoring costs could exceed the contribution.
3. Guidelines are needed for obtaining "appraisals" on contributed equipment/material and technical assistance.
4. A "final authority" at the state-level should be designated for appeals and other matters regarding approvals and decisions.

The Department is looking forward to working closely with the Joint Subcommittee in its further study of the Neighborhood Assistance Act.



COMMONWEALTH OF PENNSYLVANIA
 DEPARTMENT OF COMMUNITY AFFAIRS
 HARRISBURG
 17120

October 3, 1979

Mr. Bernard Caton
 Legislative Research Associate
 Commonwealth of Virginia
 Division of Legislative Services
 General Assembly Building
 910 Capitol Street
 Richmond, Virginia 23208

Dear Mr. Caton:

I have just reviewed your September 12, 1979 redraft of Virginia's pending Neighborhood Assistance Act. Since my June visit to Virginia to meet with you, Tood LePage, Delegate Robert E. Scott, and members of the Virginia General Assembly Subcommittee to study the feasibility of the Neighborhood Assistance Act, I was pleased to see the many changes suggested during my visit. Many of the improvements in your legislation will in my opinion certainly strengthen your Act. As you well know, we in this Department have attempted to make changes in our Neighborhood Assistance Act to affect improvements for better utilization and management. Changes become difficult to bring about once an Act is passed, but Virginia has the opportunity to pass a progressive and improved piece of legislation based on Pennsylvania's experience both positive and negative.

Your redraft is clear and concise, providing easily understood language and definitions. Much of the language will be suggested in Pennsylvania's redraft in the near future.

Good luck with your legislation and please keep me informed on its progress. Knowing its value and having worked with the Neighborhood Assistance Act in Pennsylvania, I would recommend similar programs in every state.

Sincerely,

Fred N. Abrams, Chief
 Human Services Division
 Bureau of Human Resources