

**REPORT OF THE
JOINT SUBCOMMITTEE TO STUDY
THE FEASIBILITY OF ADOPTING
AN INCOME TAX CREDIT
FOR INVESTMENTS UNDER
THE NEIGHBORHOOD ASSISTANCE ACT
TO
THE GOVERNOR
AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 15

**COMMONWEALTH OF VIRGINIA
RICHMOND
1980**

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Robert C. Scott, Vice-Chairman
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Report of the
Joint Subcommittee to Study the
Feasibility of Adopting an Income Tax Credit
for Investments Under the
Neighborhood Assistance Act

To

The Governor and the General Assembly of Virginia
Richmond, Virginia
December, 1979

To: Honorable John N. Dalton, Governor of Virginia
and
The General Assembly of Virginia

I. INTRODUCTION

During the 1979 session of the Virginia General Assembly, House Bill No. 1768, the Neighborhood Assistance Act, was introduced by Delegate Robert C. Scott and others (see Appendix A). This legislation would have given Virginia businesses which invest in certain types of neighborhood assistance, job training, education, crime prevention, or community services credits against the State income tax. The bill was referred to the House Finance Committee. The Committee, when considering the bill, felt it lacked sufficient information to properly judge the merits of the legislation and rejected it by a vote of 10 to 7. The Committee agreed with no dissenting votes, however, to a resolution which called for a study of the Neighborhood Assistance Act by a Joint House and Senate Subcommittee. This Resolution, HJR No. 276, was passed unanimously by those voting when it was considered by the full House. The resolution was similarly approved by the Senate.

II. HOUSE JOINT RESOLUTION NO. 276

Requesting the House Committees on Finance and Health, Welfare and Institutions, Senate Committee on Rehabilitation and Social Services, and the Senate Committee on Finance to study the feasibility of adopting an income tax credit for investments under the Neighborhood Assistance Act.

Agreed to by the House of Delegates, February 24, 1979

Agreed to by the Senate, February 22, 1979

WHEREAS, the Commonwealth is vitally concerned with increasing the welfare of all its citizens, but especially those who are among the less fortunate; and

WHEREAS, there are many in the Commonwealth who could benefit from additional services and training that would enable them to become more productive and useful citizens; and

WHEREAS, the citizens of the Commonwealth that do not become productive will become a burden on the productive segment of our economy and will necessarily require governmental assistance; and

WHEREAS, the Commonwealth should encourage private spending for neighborhood assistance, job training, education, crime prevention, and community services; and

WHEREAS, any direct investment by business in these areas will not only save the Commonwealth the expense of providing for certain of these services, but will also make the economy more productive, raise the standard of living of many individuals, as well as assisting individuals to reach their full potential; and

WHEREAS, a tax incentive to business to encourage direct investment in these areas may be an efficient and relatively inexpensive method of providing some of this assistance as well as encouraging this type of investment; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a Joint Subcommittee be established to study the feasibility and practicality of granting tax or other incentives to stimulate private investment by business firms in offering neighborhood assistance, job training, education, crime prevention, and community services.

The Joint Subcommittee shall be composed of ten members who shall be appointed in the following manner: three members appointed by the Chairman of the House Finance Committee from the membership of that Committee, three members appointed by the Chairman of the House Health, Welfare and Institutions Committee from the membership of that Committee, two members appointed by the Chairman of the Senate Committee on Rehabilitation and Social Services from the membership of that Committee, and two members appointed by the Chairman of the Senate Finance Committee from the membership of that Committee.

The Joint Subcommittee shall report its findings and recommendations to the Governor and the General Assembly not later than December one, nineteen hundred seventy-nine.

III. ACTIVITIES OF THE SUBCOMMITTEE

Pursuant to House Joint Resolution No. 276, the following legislators were appointed to the Subcommittee: Delegates David G. Brickley, George W. Jones, and Norman Sisisky from the House Finance Committee; Delegates Owen B. Pickett, Robert C. Scott, and Warren G. Stambaugh from the House Health, Welfare, and Institutions Committee; Senators Elliot S. Schewel and Lawrence Douglas Wilder from the Senate Committee on Social Services and Rehabilitation; and Senators Peter K. Babalas and Omer L. Hirst from the Senate Finance Committee. Delegates Brickley and Scott were elected by the Subcommittee as its Chairman and Vice Chairman, respectively.

The Subcommittee met seven times during its course of study. Three of these meetings were public hearings at which citizens of the Commonwealth were invited to address the Subcommittee. The Subcommittee also solicited comments from those who attended each of the other meetings. Among those who spoke to the Subcommittee were representatives of State agencies, Virginia local government, and organizations which might be beneficiaries of the contributions specified in the legislation.

IV. THE CONCEPT OF THE NEIGHBORHOOD ASSISTANCE ACT

The Neighborhood Assistance Act is designed as a device to encourage businesses to make charitable contributions to certain projects designed to benefit impoverished people or areas. Those businesses which make such contributions toward neighborhood assistance, job training, education, community services, or crime prevention would be eligible for credits against State income taxes which they pay. The amount of the credit would be equal to 50% of whatever contribution the business made under the program.

The basic purpose of the program is to help the impoverished. Unlike many recent anti-poverty programs, however, the Neighborhood Assistance Act is designed so that government involvement is minimal. The government's main responsibility will be to approve project proposals and certify businesses eligible for tax credits. Most of the administrative burden inherent in the program will fall to the grantee, or in cases in which a business sponsors a project, to the business itself. The only additional State responsibility--indeed, probably its most important one--involves the actual

extension of tax credits. It is through the extension of these credits that businesses might be induced to contribute to Neighborhood Assistance projects.

A. Tax Credits

Tax systems are generally used for two purposes: to raise revenue for government operations, and to foster public policies which are considered desirable by the government. The Neighborhood Assistance Act, at least in the short run, is meant to serve the latter of these purposes: it is being advocated as a means of fostering a certain public policy, i.e., to aid the impoverished.

The rationale for offering a credit in addition to the normal tax deduction for a charitable contribution is to promote contributions toward projects which would not easily attract traditional funding. Ultimately, legislation such as this indicates that the General Assembly perceives the existence of an unmet social need which it deems worthy of special attention.

B. Major Program Benefits

1. Benefits to Businesses

This legislation has been drafted in such a way that most if not all Virginia business firms would be eligible to participate in the program it would create. The Subcommittee intentionally made eligibility requirements for businesses as broad as possible, so that as many businesses as wish can participate. As indicated below, the financial benefits which would be enjoyed by participating businesses are not insignificant. It is also the intention of the Subcommittee which drafted this legislation that benefits accrued by businesses be not only monetary. Indeed, this program offers businesses a unique opportunity to become involved with the problems of poverty as they occur throughout the State.

a. Financial Incentives

The financial incentives available to businesses are considerable; they are also easy to understand. A business can subtract 50% of each approved contribution it gives (within the \$100 minimum and \$350,000 maximum established by the bill) from the applicable net business tax it owes the State. A \$100 minimum for donations was included in this legislation in order to make program administration simpler; the Subcommittee felt that allowing donations smaller than \$100 (e.g., \$5 or \$10) might overburden State employees charged with overseeing this program. The only remaining requirement is that the donation go to a project approved beforehand by the Secretary of Human Resources. The purpose of this approval is twofold: it enables the Secretary to ensure that donations are given only to projects of the kind intended by the legislation; and it allows the State to make certain that the total amount of credits given does not exceed a maximum established in the legislation. During the first year in which the program operates, credits cannot exceed \$1.75 million Statewide. For the second year, the limit is \$3.5 million. A limit of \$5.25 million per year was set for all other years.

Once a business has claimed a credit when filing its Virginia tax return, it is required to report this credit as income on its federal return. Nonetheless, the total savings are still considerable. A business with a net income of \$100,000, for instance, would receive \$3,680 in all federal and State deductions and credits if it gave a \$5,000 Neighborhood Assistance Contribution. The actual cost to the business for this contribution would thus be \$1,320. Similarly, it would cost a business with a net income of \$220,000 only \$2,376 to give a \$10,000 contribution; and a business with a net income of \$10,000,000 could give a \$350,000 donation at an actual cost of only \$83,160. More detailed sample computations of this type can be found in Appendix B.

b. Other Incentives

Potential benefits which businesses might accrue from the Neighborhood Assistance Act are not only financial. Indeed, even though the tax benefits included in this legislation are substantial, they do not completely cover the cost of a business firm's contribution. Were financial benefits the sole criteria used to determine whether or not a business wished to contribute to a Neighborhood Assistance project, a company would obviously choose not to do so.

Businesses, however, have other reasons for aiding worthy causes. Among the most important of

these is to encourage good relations and understanding between the company and the community in which it is located. The Neighborhood Assistance Act would certainly lend itself to this type of purpose. Not only would businesses be able to make financial contributions, but should they so desire, they could even sponsor and administer a Neighborhood Assistance project.

2. Benefits to Communities and Impoverished Areas and People.

The Neighborhood Assistance Act is intended to benefit those people and communities which have a pressing need that is not being met by traditional charitable contributions. Examples of projects which would be eligible for approval in this program include counseling for people with drug or alcohol problems, housing rehabilitation, construction of a community or job training center, and Meals-on-Wheels projects.

The legislation is designed so that ultimately, the average citizen will be an indirect beneficiary of it. If indeed it reduces poverty, reduces crime, and so forth, less State and local revenue will have to be directed toward poverty and crime-related problems. Furthermore, if the impoverished who receive welfare payments are trained to hold jobs, they will not only cease to require welfare; they will also begin contributing new taxes to State and local governments.

C. Ways in which Neighborhood Assistance Projects might complement other projects with similar purposes.

A number of programs which seek to reduce the effects of poverty already exist. Many of these programs could proceed at a faster rate if more money were available. Neighborhood Assistance contributions could, in fact, be used for many programs. Described below are some of these projects:

1. **Community Action Winterization Program:** This is a program, sponsored by many Community Action Agencies, which seeks to rehabilitate houses so that heat is not lost through broken windows or doors, cracks in the walls, etc.

2. **Community Development Block Grant Programs:** Neighborhood revitalization is often the major thrust of this federally sponsored program. Certain aspects of revitalization are not always eligible for federal funding; Neighborhood Assistance funds would be helpful in such cases.

3. **Head Start Programs:** Many of these programs, which seek to supplement home learning experiences for deprived young children, could make use of material, financial, and technical assistance to supplement their normal operations.

4. **Museums and historical buildings or tracts of land:** It is not uncommon to find that some of the oldest and most historically and architecturally important buildings and neighborhoods are in decaying urban or rural areas. Many of those who live in such decaying areas are impoverished and unable to expend the funds necessary to undo the damage suffered by a structure after several decades of neglect. The Neighborhood Assistance Act would provide funds for such repairs in many cases.

In addition, many decaying neighborhoods contain within them museums or homes of special historical importance. The refurbishment of such homes, or the extension of services offered by these museums, could help enrich the lives of those living within the area as well as individuals from surrounding communities.

5. **Federal Matching Grant Programs:** There are many programs other than the block grant program for which Neighborhood Assistance funds might be helpful. Many federal programs are designed such that some of the funding for a project must originate from a non-federal source. Without such funding, applicants may not achieve eligibility status. The amount required to match federal (and sometimes foundation) grants is generally between 10 and 50% of the total amount sought. Consequently, a \$10,000 Neighborhood Assistance tax credit (or \$20,000 contribution) might generate a \$180,000 federal matching grant. In this example, the project would derive 20 times the amount which, at least indirectly, was given by the State as a tax credit.

6. **Down payments for loans:** In some cases, buildings might be needed to provide some

service, such as a job training program or community activity center, which can be sustained through contributions, fees, or some other funding source once a program gets under way. If a group wishes to purchase the building, however, it is often hampered because it lacks the money necessary for a down payment. Neighborhood Assistance funds may in some cases provide a solution to this problem.

V. PROGRAM ADMINISTRATION

The Joint Subcommittee which approved this bill sought to devise as simple a program as possible. The members of the Subcommittee studied the way the program operates in those states which have adopted similar legislation, and tried to incorporate their experience into a design tailored to match the needs of Virginia. The administrative role assigned Virginia's government is less than that assigned government in other states which have passed Neighborhood Assistance legislation.

The choice as to which entity of government should be assigned the major administrative responsibilities for this program was certainly among the most difficult decisions made by the Subcommittee. The bill which was introduced during the last session assigned the Departments of Taxation, Housing and Community Development, and Welfare different facets of program administration. The Subcommittee sought from each of these agencies position papers in which the agencies were asked to comment on the legislation and how it might be administered. (See appendices B, C, and D).

After reviewing these comments, the Subcommittee chose to retain in the amended bill the role envisioned in House Bill No. 1768 for the Department of Taxation. This role was a relatively simple one: The Department would be authorized simply to grant applicable tax credits. Furthermore, representatives of the Department of Taxation assured the Subcommittee that it could fulfill its responsibilities without increasing the size of its staff.

Because some of the businesses now included in the bill file tax returns with the State Corporation Commission, it was also necessary to give this agency some of the program's administrative responsibilities. Again, the tasks that would be assigned the SCC are not complex and should not necessitate additional staff.

It was not easy to determine where major administrative responsibilities for the program should be. Eligible projects might be aimed at both physical rehabilitation and human services. Current State governmental programs of these types are administered by separate agencies under different Cabinet Secretaries. Furthermore, those agency representatives who testified before the Subcommittee envisioned programs which were far more complex and necessitated a larger staff than that which the Subcommittee had in mind.

Consequently, the Subcommittee decided to assign administrative responsibility to a Cabinet member, the Secretary of Human Resources. In so doing, the Subcommittee felt that governmental red tape and State expenditures would both be minimized.

The major administrative tasks of the Secretary will be threefold if this legislation is adopted. First, she will be called upon to adopt rules and regulations for the program. Her second task will be to certify project applications. It is the intention of the Subcommittee that the major burden in preparing project applications be borne by the applicant, with the Secretary reviewing applications simply to determine whether or not they qualify for certification. The Secretary's final task will be to send a copy of each project proposal to the governing body of the locality in which the project will be carried out. The governing body will then be given the opportunity to offer written advisory comments about the proposal to the Secretary, although the comments will in no way be binding on the Secretary's decision to approve or reject a project.

A. The Definition of Impoverished Persons or Areas

In defining the terms "impoverished area" and "impoverished people," the Subcommittee intentionally gave the Secretary of Human Resources a great deal of latitude in determining what or who falls into these categories in Virginia. The Subcommittee might, had it wished, have chosen federally established income levels as the sole basis for defining poverty. Such criteria would

probably have worked fairly well in identifying impoverished individuals; problems would result, however, from using these criteria to identify impoverished areas. If an impoverished area were defined, for instance, as one in which the average income is below federal poverty guidelines, areas with extremely high and low income levels might not be included. The average income for such an area might not really show pockets of poverty that exist there. In order that the best criteria possible be adopted, and so that these criteria might be altered and amended when necessary, the Subcommittee gave the Secretary of Human Resources the responsibility for identifying impoverished areas and people. The criterion used to identify impoverished people will probably be income. The criteria used to identify impoverished areas will likely include some or all of the following:

1. declining population
2. persons on public assistance
3. persistent or substantial unemployment or underemployment
4. lower than average family income
5. significant percentage of residents on fixed income
6. significant numbers of single parent families having low incomes
7. insurance and lending institution redlining
8. physical and market deterioration of commercial districts
9. excessive abandonment of housing, commercial properties, or both
10. deteriorated, unsanitary, or overcrowded housing
11. general unsanitary conditions in the area
12. high rates of crime and delinquency
13. significant presence of drug or alcohol abuse
14. significant school drop-out rate
15. significant presence of low educational attainment
16. high degree of infant mortality or disease disabilities
17. inadequate level of city or public utility services.

B. Local Government Involvement

From the standpoint of the public sector, the Neighborhood Assistance Act would primarily be a State initiated and sponsored program. During its meetings, the Subcommittee heard support for local government involvement, especially with regard to the approval of projects. Among the arguments advanced was one which postulated that such involvement would allow for better coordination of all types of rehabilitative projects.

The Subcommittee was sympathetic to these arguments and gave them careful consideration. Consistent with its wish to keep the program as simple as possible, however, the Subcommittee decided to allow for only limited local government involvement. Rather than authorize counties or cities to approve or reject any specific proposals, these governing bodies would simply be authorized to submit comments to the Secretary of Human Resources on any proposals which would be implemented within their jurisdictions. The submission of comments would not be mandatory, and the Secretary would not be obliged to accept any suggestions incorporated into comments. This process will, however, allow localities to be aware of projects proposed for their localities. It will give them an opportunity to alert the Secretary to any specific reasons why the proposal should not be implemented according to program guidelines.

C. Program Approval

1. Development of the proposal.

If the Neighborhood Assistance Act is adopted, projects may be sponsored by any eligible business firm, community action agency [as defined in the Economic Opportunity Act of 1964 (42 U.S.C. § 2701, et seq.)], or neighborhood organization exempted from income taxation [under the provisions of §§ 501(c)(3) or 501(c)(4) of the Internal Revenue Code of 1954], which performs a community service or services in an impoverished area or for impoverished people. A particular need of the impoverished must first be identified, then a constructive way to fulfill this need must be designed.

2. Project Application

Although final responsibility for establishing a format for project applications will be spelled out in the rules and regulations promulgated if this legislation is adopted, the following steps are anticipated for the application process:

- a. Identification of the specific need which exists.
- b. Development of criteria used to identify the area or people served by the project as impoverished.
- c. Design of specific project plan describing how it will attempt to fulfill the identified needs of the impoverished area or people.
- d. Estimate of cash and in-kind donations required.
- e. Estimate of amount of tax credit requested.
- f. Description of the system of fiscal control and accounting procedures to be used by the applicant.
- g. Development of an evaluation method for the project

3. Project Review

Once the proposal is submitted, the Secretary of Human Resources will be responsible for checking the application to make certain that:

- a. The project is eligible under the criteria established in the legislation.
- b. The proposal conforms to the rules and regulations which have been promulgated.
- c. The applicant can reasonably hope to accomplish the goals set forth in the proposal.

D. Utilization of the Tax Credit

Once a project has been approved, the applicant can solicit contributions from eligible business firms. The solicitation process can, of course, begin prior to a project's approval. Eligible businesses which contribute will forward the required information to the Secretary of Human Resources. Once the Secretary has certified that the business is indeed eligible for a credit, and the project has been approved, she will notify the business firm and the Department of Taxation (or the State Corporation Commission) that the firm is eligible for a credit. The business firm will likely be required to file a copy of its credit notification with its tax return.

In summary, the administrative requirements for this program should be relatively simple. State involvement will be minimal; forms will be few and, for those that are required, straightforward. Whatever administrative burdens do exist will be placed on grantees, rather than the government or businesses (unless businesses themselves choose to sponsor projects).

VI. CONCLUSIONS

This Subcommittee believes that a Neighborhood Assistance Program would be of great benefit to the Commonwealth. It would allow the private sector to assist the impoverished, and moreover the Commonwealth in general, with only minimal State involvement.

A draft of the legislation which the Subcommittee is recommending for passage by the General Assembly has been favorably reviewed by Mr. Fred Abrams, who has administered Pennsylvania's Neighborhood Assistance Program for a number of years. A copy of Mr. Abrams' remarks can be found in Appendix E.

The Subcommittee sought to authorize a credit level high enough to aid those in need, yet not so high that it would pose a threat to the State's financial solvency. Mindful of the uncertainties which exist in any new legislation, the Subcommittee has inserted into the legislation a clause which provides for its expiration on December 31, 1984, unless it is reenacted by the General Assembly prior to that time.

The following is the text of the proposed legislation:

A BILL to amend the Code of Virginia by adding a section numbered 58-151.032:4 and in Title 63.1 a chapter numbered 18, consisting of sections numbered 63.1-315 through 63.1-320, providing tax credits for business firms which provide neighborhood assistance or community services to the impoverished and authorizing the promulgation of rules and regulations for the approval of such tax credits.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding a section numbered 58-151.032:4 and in Title 63.1 a chapter numbered 18, consisting of sections numbered 63.1-315 through 63.1-320, as follows:

§ 58-151.032:4. Tax credit for investments under the "Neighborhood Assistance Act of 1980."—Any business firm, as defined in § 63.1-316, shall be allowed a credit against the tax imposed by § 58-151.03; Chapter 10 of Title 58 or, in the event the tax imposed by Chapter 10 of Title 58 shall be held unconstitutional by a court of competent jurisdiction and be replaced by the tax imposed by Chapter 10.1 of Title 58, Chapter 10.1 of Title 58; § 58-486; § 58-501; and § 58-503.1 of an amount equal to fifty per centum of the total sum invested under the Neighborhood Assistance Act of 1980 (§ 63.1-315 et seq.) during the taxable year, such credit not to exceed one hundred seventy-five thousand dollars annually; provided, however, no tax credit of less than fifty dollars shall be granted, nor shall a tax credit be granted to any business firm for investments if such activity is a part of its normal course of business as defined in § 63.1-316. Any tax credit not used in the year the investment was made may be carried over for the next five succeeding taxable years until the full credit is utilized.

CHAPTER 18.

NEIGHBORHOOD ASSISTANCE ACT.

§ 63.1-315. Short title.—This chapter shall be known and may be cited as the "Neighborhood Assistance Act of 1980."

§ 63.1-316. Definitions.—As used in this chapter:

1. "Community services" means any type of counseling and advice, emergency assistance, medical care, or services designed to minimize the effects of poverty furnished to individuals or groups in an impoverished area, or impoverished people.

2. "Impoverished area" means any area in Virginia which is approved as such by the Secretary of Human Resources. Such approval shall be made on the basis of federal census studies or current indices of social and economic conditions or both.

3. ***“Impoverished people” means people in Virginia approved as such by the Secretary of Human Resources. Such approval shall be made on the basis of generally recognized low income criteria used by federal and State agencies.***

4. ***“Neighborhood organization” means any organization performing community services in an impoverished area or for impoverished people, and holding a ruling from the Internal Revenue Service of the United States Department of the Treasury that the organization is exempt from income taxation under the provisions of §§ 501(c)(3) and 501(c)(4) of the Internal Revenue Code of 1954, as amended from time to time, or any organization defined as a community action agency in the Economic Opportunity Act of 1964 [42 U.S.C.A. § 2701 et seq.].***

5. ***“Neighborhood Assistance” means furnishing financial assistance, labor, material, or technical advice to aid in the physical improvement of any part or all of an impoverished area, or to aid the physical improvement of the homes of impoverished people.***

6. ***“Business firm” means any business entity authorized to do business in the Commonwealth of Virginia and subject to the State income tax on net corporate income (§ 58-151.031 et seq.), or a public service company subject to a franchise or license tax on gross receipts, or a bank, bank and trust company, insurance company, trust company, national bank, mutual savings bank, savings and loan association, partnership or sole proprietorship.***

7. ***“Job training” means any type of instruction to an individual who is impoverished that enables him to acquire vocational skills so that he can become employable or be able to seek a higher grade of employment.***

8. ***“Education” means any type of scholastic instruction or scholarship assistance to an individual who is impoverished that enables him to prepare himself for better life opportunities.***

9. ***“Crime prevention” means any activity which aids the prevention or reduction of crime in an impoverished area.***

10. ***“Normal course of business” means those acts which are engaged in by a business firm with a view toward winning financial gain, or those acts which are performed by a business firm in the conduct of the business firm as a business.***

11. ***“Professional services” means any type of personal service to the public which requires as a condition precedent to the rendering of such service the obtaining of a license or other legal authorization and shall include, but shall not be limited to, the personal services rendered by medical doctors, dentists, architects, professional engineers, certified public accountants and attorneys-at-law.***

§ 63.1-317. Public policy, business firms, investment.—It is hereby declared to be public policy of the Commonwealth of Virginia to encourage direct investment by business firms in offering neighborhood assistance and providing job training, education, crime prevention, and community services to neighborhood organizations to benefit individuals living in impoverished areas or impoverished people.

§ 63.1-318. Tax credit authorized; proposals, rules and regulations; amount for programs.—Any business firm which engages in the activities of providing neighborhood assistance, job training or education for individuals not employed by the business firm, community services or crime prevention in an impoverished area shall receive a tax credit as provided in § 63.1-319 if the Secretary of Human Resources approves the proposal of such business firm or of a neighborhood organization. The proposal shall set forth the program to be conducted, the impoverished area or impoverished people selected, the estimated amount to be invested in the program and the plans for implementing the program. A copy of the proposal shall be submitted by the Secretary of Human Resources to the governing body of any county or city in which the proposal will operate. Such governing body may thereafter comment in writing on the proposal to the Secretary of Human Resources. If, in the opinion of the Secretary of Human Resources, a business firm’s investment can more consistently meet with the purposes of this chapter if made through contributions to a nonprofit neighborhood organization, a tax credit may similarly be allowed as provided in § 63.1-319. The Secretary of Human Resources is hereby authorized to promulgate rules and regulations for the approval or disapproval of such proposals by business firms or

neighborhood organizations. The total amount of tax credit granted for programs approved under this chapter for the fiscal year 1980-1981 shall not exceed one million seven hundred fifty thousand dollars to be increased by no more than one million seven hundred fifty thousand dollars each succeeding fiscal year until the total tax credit granted reaches five million two hundred fifty thousand dollars and thereafter no more than five million two hundred fifty thousand dollars of tax credit shall be approved in any fiscal year.

§ 63.1-319. Tax credit, amount, limitation, carry over.--The Secretary of Human Resources shall certify to the Commissioner of the Department of Taxation, or in the case of public service companies to the Director of Public Service Taxation for the State Corporation Commission, the applicability of the tax credit provided herein for a business firm against any tax due under Article 7.4 of Chapter 4 of Title 58 or against any income tax, franchise tax, gross receipts tax or shares tax due from a public service company, bank, bank and trust company, trust company, insurance company, other than a foreign fire or casualty insurance company, national bank, mutual savings bank, savings and loan association, partnership or sole proprietorship, in an amount equaling fifty per centum of the total amount invested during the taxable year by the business firm in programs approved pursuant to § 63.1-318 of this chapter, but no tax credit of less than fifty dollars shall be granted for any individual proposal, nor shall the tax credit exceed one hundred seventy-five thousand dollars annually; provided, however, that no tax credit shall be granted to any business firm for activities that are a part of its normal course of business. Any tax credit not used in the period the investment was made may be carried over for the next five succeeding calendar years until the full credit has been allowed.

§ 63.1-320. Provisions of chapter not applicable in certain cases.--Tax credits shall not be allowed under this chapter for the time spent by a self-employed person who renders professional services to a project which has been approved for tax credit status by the Secretary of Human Resources; provided, however, that an employer shall be allowed a tax credit under this chapter for the time spent by a salaried employee who renders professional services to such an approved project. The tax credit allowed to an employer for time spent by his salaried employee in rendering professional services to an approved project shall be equal to one-half the salary that such employee was actually paid for the period of time that such employee rendered professional services to the approved project.

2. That if any clause, sentence, paragraph, subdivision, section or part of this Act shall be adjudged by any court of competent jurisdiction to be invalid, the judgment shall not affect, impair or invalidate the remainder thereof but shall be confined in its operation to the controversy in which the judgment shall have been rendered.

3. That the provisions of this Act shall be effective for taxable years beginning on and after January one, nineteen hundred eighty-one.

4. That this Act shall remain in effect for a period of four taxable years and unless this Act shall be extended by further action of the General Assembly, it shall expire on December thirty-one, nineteen hundred eighty-four and be of no further force and effect; provided, however, that a business firm which received the tax credit provided by this Act while it was in effect shall be entitled to carry over that credit for the next five succeeding taxable years whether or not this Act shall expire on December thirty-one, nineteen hundred eighty-four.

1 HOUSE BILL NO. 1768

2 Offered January 19, 1979

3 A BILL to amend the Code of Virginia by adding a section numbered 58-151.032:3 and in
4 Title 63.1 a chapter numbered 18, consisting of sections numbered 63.1-315 through
5 63.1-319, providing for the Neighborhood Assistance Act of 1979.

6
7 Patrons—Scott, R. C., Slayton, Diamonstein, Wilkins, Morrison, Robinson, Giesen, Washington,
8 Joannou, Miller, C, Stieffen, Hailey, Grayson, Fickett, Myers, Lambert, Hobson, Plum,
9 and Christian

10
11 Referred to the Committee on Finance

12
13 Be it enacted by the General Assembly of Virginia:

14 1. That the Code of Virginia is amended by adding a section numbered 58-151.032:3 and in
15 Title 63.1 a chapter numbered 18, consisting of sections numbered 63.1-315 through 63.1-319,
16 as follows:

17 § 58-151.032:3. Tax credit for investments under the "Neighborhood Assistance Act of
18 1979."—Any business firm, as defined in § 63.1-316, shall be allowed a credit against the
19 tax imposed by § 58-151.03 of an amount equal to fifty per centum of the total sum
20 invested under the Neighborhood Assistance Act of 1979 (§ 63.1-315 et seq.) during the
21 taxable year, such credit not to exceed one hundred seventy-five thousand dollars
22 annually; provided, however, no tax credit shall be granted to any business firm for
23 investments if such activity is a part of its normal course of business. Any tax credit not
24 used in the year the investment was made may be carried over for the next five
25 succeeding taxable years until the full credit is utilized.

26 CHAPTER 18.

27 NEIGHBORHOOD ASSISTANCE ACT.

28 § 63.1-315. Short title.—This act shall be known and may be cited as the "Neighborhood
29 Assistance Act of 1979."

30 § 63.1-316. Definitions.—As used in this act:

31 A. "Community services" means any type of counseling and advice, emergency
32 assistance, or medical care furnished to individuals or groups in an impoverished area.

33 B. "Impoverished area" means any area in Virginia which is approved as such by the
34 Commissioner of the Department of Welfare and certified by the Department of Housing
35 and Community Development. Such approval shall be made on the basis of federal census
36 studies and current indices of social and economic conditions. The Department of Housing
37 and Community Development shall certify to the State Tax Commissioner those areas
38 qualifying as impoverished for purposes of the tax credit provided by § 63.1-319.

39 C. "Neighborhood organization" means any organization performing community
40 services in an impoverished area and holding a ruling from the Internal Revenue Service
41 of the United States Department of the Treasury that the organization is exempt from
42 income taxation under the provisions of § 501 (c) (4) of the Internal Revenue Code of
43 1954, as amended from time to time.

44 D. "Neighborhood assistance" means furnishing financial assistance, labor, material,

1 and technical advice to aid in the physical improvement of any part or all of an
2 impoverished area.

3 E. "Business firm" means any business entity authorized to do business in the
4 Commonwealth of Virginia and subject to the State income tax on net corporate income
5 (§ 58-151.031 et seq.), or a bank, bank and trust company, insurance company, trust
6 company, national bank, savings association, mutual savings bank or building and loan
7 association.

8 F. "Job training" means any type of instruction to an individual who resides in an
9 impoverished area that enables him to acquire vocational skills so that he can become
10 employable or be able to seek a higher grade of employment.

11 G. "Education" means any type of scholastic instruction or scholarship assistance to an
12 individual who resides in an impoverished area that enables him to prepare himself for
13 better life opportunities.

14 H. "Crime prevention" means any activity which aids in the reduction of crime in an
15 impoverished area.

16 § 63.1-317. Public policy, business firms, investment.—It is hereby declared to be public
17 policy of the Commonwealth of Virginia to encourage direct investment by business firms
18 in offering neighborhood assistance and providing job training, education, crime
19 prevention, and community services to neighborhood organizations to benefit individuals
20 living in impoverished areas.

21 § 63.1-318. Tax credit authorized; proposals; rules and regulations; amount for
22 programs.—Any business firm which engages in the activities of providing neighborhood
23 assistance, job training or education for individuals not employed by the business firm,
24 community services, or crime prevention in an impoverished area shall receive a tax
25 credit as provided in § 63.1-319 if the Commissioner of the Department of Welfare
26 annually approves and the Director of the Department of Housing and Community
27 Development certifies the proposal of such business firm. The proposal shall set forth the
28 program to be conducted, the impoverished area selected, the estimated amount to be
29 invested in the program and the plans for implementing the program. If, in the opinion of
30 the Commissioner of the Department of Welfare, a business firm's investment can be more
31 consistently meet with the purposes of this act if made through contributions to a
32 nonprofit neighborhood organization, a tax credit may be similarly allowed as provided in
33 § 63.1-319. The Commissioner of the Department of Welfare is hereby authorized to
34 promulgate rules and regulations for the approval or disapproval of such proposals by
35 business firms. The total amount of tax credit granted for programs approved under this
36 chapter for the fiscal year 1979-1980 shall not exceed one million seven hundred fifty
37 thousand dollars to be increased by no more than one million seven hundred fifty
38 thousand dollars each succeeding fiscal year until the total tax credit granted reaches
39 eight million seven hundred fifty thousand dollars and thereafter no more than eight
40 million seven hundred fifty thousand dollars of tax credit shall be approved in any fiscal
41 year.

42 § 63.1-319. Tax credit, amount, limitation, carry-over.—The Director of the Department
43 of Housing and Community Development shall certify to the Commissioner of the
44 Department of Taxation the applicability of the tax credit provided herein for a business

1 *firm against any tax due under Article 7.4 of Chapter 4 of Title 58 or against any income*
 2 *tax due from a bank, bank and trust company, trust company, insurance company, other*
 3 *than a foreign fire or casualty insurance company, national bank, savings association,*
 4 *mutual savings bank or building and loan association, in an amount equaling fifty per*
 5 *centum of the total amount invested during the taxable year by the business firm in*
 6 *programs approved pursuant to § 63.1-318 of this chapter but such credit shall not exceed*
 7 *one hundred seventy-five thousand dollars annually; provided that no tax credit shall be*
 8 *granted to any bank, bank and trust company, insurance company, trust company,*
 9 *national bank, savings association, mutual savings bank or building and loan association*
 10 *for activities that are a part of its normal course of business. Provided, that any tax*
 11 *credit not used in the period the investment was made may be carried over for the next*
 12 *five succeeding calendar years until the full credit has been allowed.*

13 2. That the provisions of this act shall be effective for taxable years beginning on and
 14 after January one, nineteen hundred eighty.

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Official Use By Clerks

Passed By		Passed By The Senate
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Date: _____

Clerk of the House of Delegates

Clerk of the Senate

Department of Taxation Analysis of
Proposed Neighborhood Assistance
Act of 1979 (H.B. 1768)

SUMMARY

This bill provides an income tax credit for investments under the "Neighborhood Assistance Act of 1979". The credit is provided to corporations that invest in impoverished areas in the state by providing financial assistance, labor, material, technical advice, job training, counseling, emergency assistance, medical care, or activities that aid in the reduction of crime. The tax credit would be equal to 50 percent of the total amount invested not to exceed \$175,000 annually, but any unused tax credit could be carried over for the next five succeeding taxable years.

Eligible business firms are defined in the bill to include those which pay the corporate net income tax, or banks, bank and trust companies, insurance companies, trust companies, national banks, savings association, mutual saving banks, or building and loan associations. Firms would be required to submit annually investment proposals to the Commissioner of the Department of Welfare and the Director of the Department of Housing and Community Development for approval and certification of eligibility for the tax credit. The bill provides that the total amount of tax credit shall not exceed \$1.75 million for fiscal year 1979-80 and that each fiscal year thereafter an additional \$1.75 million could be allocated

until the total tax credits amounted to \$8.75 million annually. This bill is effective for taxable years beginning on and after January 1, 1980.

EFFECT ON REVENUES

STATE: The bill provides that the total revenue cost shall be no more than the following amounts:

<u>Fiscal Year</u>	<u>Millions</u>
1980	\$1.75
1981	3.50
1982	5.25
1983	7.00
1984	8.75

After fiscal year 1984, the total annual revenue cost is limited to \$8.75 million.

The department has no way of estimating how much revenue, if any, will offset the program cost if the neighborhood assistance program retrains previously unemployable citizens and brings them onto the tax rolls.

LOCAL: None

EFFECT ON COST OF ADMINISTRATION

STATE: Costs could be significant to the Department of Welfare and the Department of Housing and Community Development but would be insignificant to the Department of Taxation.

LOCAL: None

COMMENT

This bill provides for a corporate income tax credit equal to 50 percent of the business firm's total investment in eligible neighborhood assistance, job training, education, crime prevention, and community services programs. The credit would be limited to \$175,000 per taxpayer per year.

Attached are three sample computations of the proposed income tax credit based on corporate contributions of \$5,000, \$10,000, and \$350,000, setting out three situations in each case: no contribution, other contribution, and the NAA contribution.

Any "other" contribution (second column, line 2) is already deductible by the taxpayer in arriving at federal taxable income. State income tax paid is also deductible (line 4), thus lowering federal taxable income again.

With the NAA contribution (third column, line 2), although it is also deductible, the reduction of the state income tax paid (line 4) caused by the 50 percent NAA credit makes the federal tax greater (line 7). The Virginia tax is, of course, less by 50 percent of the credit. Thus, although the federal tax will be higher with the NAA contribution, the significantly reduced Virginia tax compensates to make it likely that such contribution would be desirable to the taxpayer.

Of the several types of business firms named in this bill as eligible to receive the tax credit, only building and loan associations and those referred to under Section 58-151.031 are subject to the corporate income tax. The other firms are not subject to the corporate income tax but instead pay the franchise tax on gross receipts or the bank shares tax. Thus, these firms could not receive the income tax credit.

Any program of income tax relief unrelated to equity in the tax structure is often referred to as a "tax expenditure." In other words, the revenue cost of the program can be compared to a direct budgetary outlay for a program with similar political, social or economic objectives. However, tax expenditures frequently contribute to the complexity of the tax structure. In addition, their revenue cost is often not considered with the costs of other direct expenditures with the same program objectives. Thus, policy makers are frequently unable to evaluate the total cost of the program relative to other programs.

COMPARISON WITH OTHER STATES

Attached is a chart comparing the proposed Virginia "Neighborhood Assistance Act of 1979" with income tax credit programs now in effect in Pennsylvania, Missouri, and Indiana. Basically, the proposed Virginia plan is modeled after the Pennsylvania plan. All states being compared use federal taxable income as the starting point in the calculation of their corporate income tax.

SUGGESTED AMENDMENTS

This bill should be amended to include a definition of "invested" as used in Section 58-151.032:3. In addition, it should be amended either to exclude those firms not subject to the corporate income tax or to make provision for credits for those firms against state taxes that they do pay, e.g., gross receipts tax or bank stock tax. Also, it seems to be discriminatory against the individual proprietor or the individual wage earner who desires to contribute to NAA. The bill might be amended to include a credit for individuals.

APPENDIX B (con't)

EXAMPLE 1

SAMPLE VIRGINIA CORPORATE COMPUTATIONS

NEIGHBORHOOD ASSISTANCE ACT OF 1979

	NO CONTRIBUTION	OTHER CONTRIBUTION	NAA CONTRIBUTION
1) Net Income before Contribution and Va. Tax	100,000.00	100,000.00	100,000.00
2) Contribution Deduction	-0-	5,000.00	5,000.00
3) Federal Net Income before Va. Tax	100,000.00	95,000.00	95,000.00
4) Va. Income Tax Paid Deduction (6% of Fed. Net Minus any Credits)	<u>6,000.00</u>	<u>5,700.00</u>	<u>3,200.00*</u>
5) Total deductions	6,000.00	10,700.00	8,200.00
6) Federal Taxable Income	94,000.00	89,300.00	91,800.00
Federal Tax 17% x 25,000.00	4,250.00	4,250.00	4,250.00
Federal Tax 20% x 25,000.00	5,000.00	5,000.00	5,000.00
Federal Tax 30% x 25,000.00	7,500.00	7,500.00	7,500.00
Federal Tax 40% x 25,000.00	7,600.00	5,720.00	6,720.00
Federal Tax 46% x Excess			
7) Total Federal Tax	<u>24,350.00</u>	<u>22,470.00</u>	<u>23,470.00</u>
8) Federal Tax Savings (Fed. Revenue Loss)		1,880.00	880.00
9) Virginia Tax	<u>6,000.00</u>	<u>5,700.00</u>	<u>3,200.00</u>
10) Virginia Tax Savings (Va. Revenue Loss)		300.00	2,800.00
11) Total Taxes	<u>30,350.00</u>	<u>28,170.00</u>	<u>26,670.00</u>
12) Total Tax Savings (Total Fed. and Va. Revenue Loss)		2,180.00	3,680.00
13) Actual Cash Required to contribute & 5,000		<u>2,820.00</u>	<u>1,320.00</u>

*\$5,700 - \$2,500 credit.

APPENDIX B (con't)

EXAMPLE 2

SAMPLE VIRGINIA CORPORATE COMPUTATIONS

NEIGHBORHOOD ASSISTANCE ACT OF 1979

	NO CONTRIBUTION	OTHER CONTRIBUTION	NAA CONTRIBUTION
1) Net Income before Contributions and Va. Tax	220,000.00	220,000.00	220,000.00
2) Contribution Deduction	-0-	10,000.00	10,000.00
3) Federal Net Income before Va. Tax	220,000.00	210,000.00	210,000.00
4) Va. Income Tax Paid Deduction (6% of Fed. Net Minus Any Credits)	13,200.00	12,600.00	7,600.00*
5) Total Deductions	13,200.00	22,600.00	17,600.00
6) Federal Taxable Income	206,800.00	197,400.00	202,400.00
Federal Tax 17% x 25,000.00	4,250.00	4,250.00	4,250.00
Federal Tax 20% x 25,000.00	5,000.00	5,000.00	5,000.00
Federal Tax 30% x 25,000.00	7,500.00	7,500.00	7,500.00
Federal Tax 40% x 25,000.00	10,000.00	10,000.00	10,000.00
Federal Tax 46% x Excess	<u>49,128.00</u>	<u>44,804.00</u>	<u>47,104.00</u>
7) Total Federal Tax	75,878.00	71,554.00	73,854.00
8) Federal Tax Savings (Fed. Revenue Loss)		4,324.00	2,024.00
9) Virginia Tax	13,200.00	12,600.00	7,600.00
10) Virginia Tax Savings (Va. Revenue Loss)		600.00	5,600.00
11) Total Taxes	89,078.00	84,154.00	81,454.00
12) Total Tax Savings (Total Fed. and Va. Revenue Loss)		4,924.00	7,624.00
13) Actual Cash Required To Contribute \$10,000.00		5,076.00	2,376.00

*\$12,600 - \$5,000 Credit

APPENDIX B (con't)

EXAMPLE 3SAMPLE VIRGINIA CORPORATE COMPUTATIONSNEIGHBORHOOD ASSISTANCE ACT OF 1979

	<u>NO</u> <u>CONTRIBUTION</u>	<u>OTHER</u> <u>CONTRIBUTION</u>	<u>NAA</u> <u>CONTRIBUTION</u>
1) Net Income before Contribution and Va. Tax	10,000,000.00	10,000,000.00	10,000,000.00
2) Contribution Deduction	-0-	350,000.00	350,000.00
3) Federal Net Income before Va. Tax	10,000,000.00	9,650,000.00	9,650,000.00
4) Va. Income Tax Paid Deduction (6% of Federal Net Minus any Credits)	<u>600,000.00</u>	<u>579,000.00</u>	<u>404,000.00</u>
5) Total Deductions	600,000.00	929,000.00	754,000.00
6) Federal Taxable Income	9,400,000.00	9,071,000.00	9,246,000.00
Federal Tax 17% x 25,000.00	4,250.00	4,250.00	4,250.00
Federal Tax 20% x 25,000.00	5,000.00	5,000.00	5,000.00
Federal Tax 30% x 25,000.00	7,500.00	7,500.00	7,500.00
Federal Tax 40% x 25,000.00	10,000.00	10,000.00	10,000.00
Federal Tax 46% x Excess	<u>4,278,000.00</u>	<u>2,126,660.00</u>	<u>4,207,160.00</u>
7) Total Federal Tax	<u>4,304,750.00</u>	<u>4,153,410.00</u>	<u>4,233,910.00</u>
8) Federal Tax Savings (Fed. Revenue Loss)		151,340.00	70,840.00
9) Virginia Tax	<u>600,000.00</u>	<u>579,000.00</u>	<u>404,000.00</u>
10) Virginia Tax Savings (Va. Revenue Loss)		21,000.00	196,000.00
11) Total Taxes	<u>4,904,750.00</u>	<u>4,732,410.00</u>	<u>4,637,910.00</u>
12) Total Tax Savings (Total Fed. and Va. Revenue Loss)		172,340.00	266,840.00
13) Actual Cash Required to contribute \$350,000		<u>177,660.00</u>	<u>83,160.00</u>

*\$579,000 - \$175,000 credit.

APPENDIX B (con't)

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

	Penn.	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 individuals 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

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,

A handwritten signature in cursive script that reads "Fred N. Abrams".

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