

**Presented to Senate Finance
Subcommittee on Education**

***Overview of the Neighborhood Assistance
Act Tax Credit for Education and the
Education Improvement Scholarships Tax
Credits Programs***

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Tax Credit Programs for Education

The Virginia Department of Education is responsible for administering two Virginia tax credit programs for education.

- **The Neighborhood Assistance Act Tax Credit**
(§§ 58.1-439.18 – 58.1-439.24, of the *Code of Virginia*)
1981 *Acts of Assembly*, Chapter 629
2009 *Acts of Assembly*, Chapter 851, Senate Bill 1325
2013 *Acts of Assembly*, Chapter 802, Senate Bill 1009
2013 *Acts of Assembly*, Chapter 713, Senate Bill 1227 and Chapter 716, House Bill 1996

- **Education Improvement Scholarships Tax Credits**
(§§ 58.1-439.25 – 58.1-439.28, of the *Code of Virginia*)
2012 *Acts of Assembly*, Chapter 731, Senate Bill 131 and Chapter 842, House Bill 321
2013 *Acts of Assembly*, Chapter 713, Senate Bill 1227 and Chapter 716, House Bill 1996

Neighborhood Assistance Act Tax Credit for Education

- Under the Neighborhood Assistance Act (NAA) Tax Credit program, individuals or businesses may receive state tax credits for eligible contributions made to approved neighborhood organizations that provide scholastic instruction or scholastic assistance to low-income persons or eligible students with a disability.

- Recipients of neighborhood education assistance include:
 - students and families whose household income is not in excess of 300% of the federal poverty guidelines; or
 - eligible students with a disability who have an individualized educational program and whose household income is not in excess of 400% of the federal poverty guidelines.

Neighborhood Assistance Act Tax Credit for Education

2013 Legislative Changes

- At least 50 percent of applicant neighborhood organization's revenues are used to provide services to low-income persons or to eligible students with disabilities.
- The applicant neighborhood organization has been in existence for at least one (1) year.
- The applicant neighborhood organization and any of its affiliates must meet the requirements of the application, regulations or guidelines.
- As part of the proposal process, an applicant neighborhood organization must provide a copy of an audit or review for the most recent year ended performed by an independent certified public accountant, or a compilation performed by an independent certified public accountant if the organization's total revenues (including the value of all donations) were \$100,000 or less for the most recent year ended.

Neighborhood Assistance Act Tax Credit for Education

2013 Legislative Changes (Cont'd)

- **Removed the donation limitation for married couples.**
- **Increased the maximum amount of tax credits that an individual may be issued in a taxable year from \$50,000 to \$81,250 (which equates to an aggregate donation value of \$125,000).**
- **Extended the sunset date to July 1, 2028.**

Neighborhood Assistance Act Tax Credit for Education

Neighborhood Organizations – Approval Criteria

- **To participate in the NAA Tax Credit program an organization and any of its affiliates must meet the following statutory criteria:**
 - **exempt from income taxation under the provisions of §§ 501(c)(3) and 501(c)(4) of the Internal Revenue Code, or be defined as a community action agency in the Economic Opportunity Act of 1964 (42 U.S.C. § 2701 et seq.), or any housing authority as defined in § 36-3;**
 - **at least 50 percent of the total persons served are low-income persons or eligible students with a disability;**
 - **at least 50 percent of its revenues are used to provide services to low-income persons or to eligible students with disabilities; and**
 - **the organization has been in existence for at least one (1) year.**

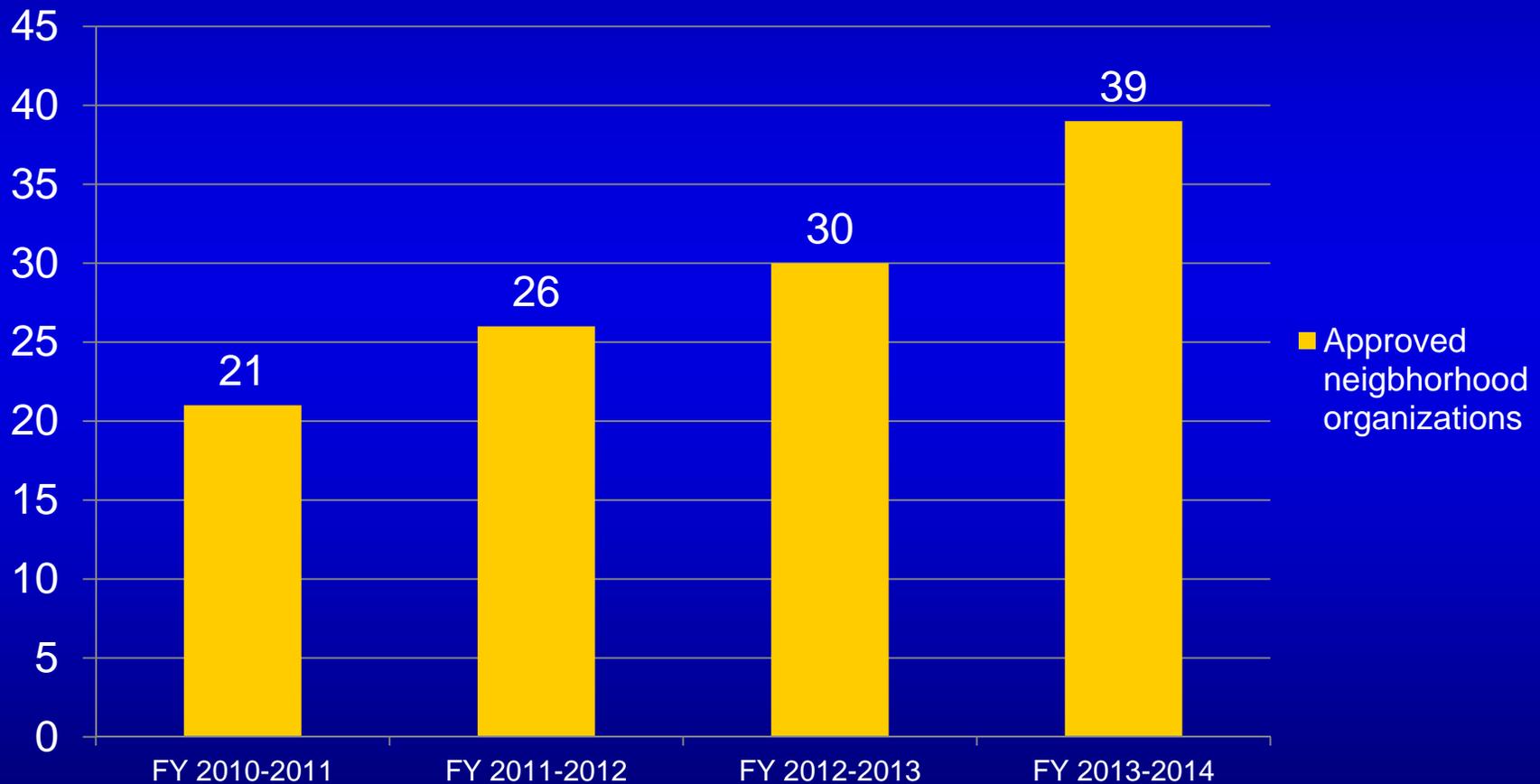
Neighborhood Assistance Act Tax Credit for Education

Neighborhood Organizations – Approval Criteria (Cont'd)

- **An applicant neighborhood organization and any of its affiliates must also meet the following criteria established through guidelines:**
 - **an audit, review or compilation must have no significant findings or areas of concern;**
 - **maintain a current registration with the Virginia Department of Agriculture and Consumer Affairs to solicit for donations in the Commonwealth; and**
 - **provide a copy of its most recent Form 990.**

Neighborhood Assistance Act Tax Credit for Education

Neighborhood Organization Participation Rates



Neighborhood Assistance Act Tax Credit for Education

Neighborhood Organizations – Allocation of Tax Credits

- A neighborhood organization or a grouping of affiliated neighborhood organizations may be allocated up to an aggregate of \$825,000 in tax credits.
 - The \$825,000 limitation does not apply to reallocations of unused tax credits.
 - Any affiliated neighborhood organizations approved for more than an aggregate of \$500,000 in tax credits in any fiscal year ending prior to January 1, 2010, may each be allocated up to \$825,000 in tax credits.
- The NAA Tax Credit is capped at \$15 million in a fiscal year.
 - The portion of tax credits that may be allocated by the Department of Education is \$8 million.
- Tax credit allocations are prorated if the total of all tax credit requests exceeds the \$8 million cap.

Neighborhood Assistance Act Tax Credit for Education

Total Amount of Tax Credits Allocated by DOE



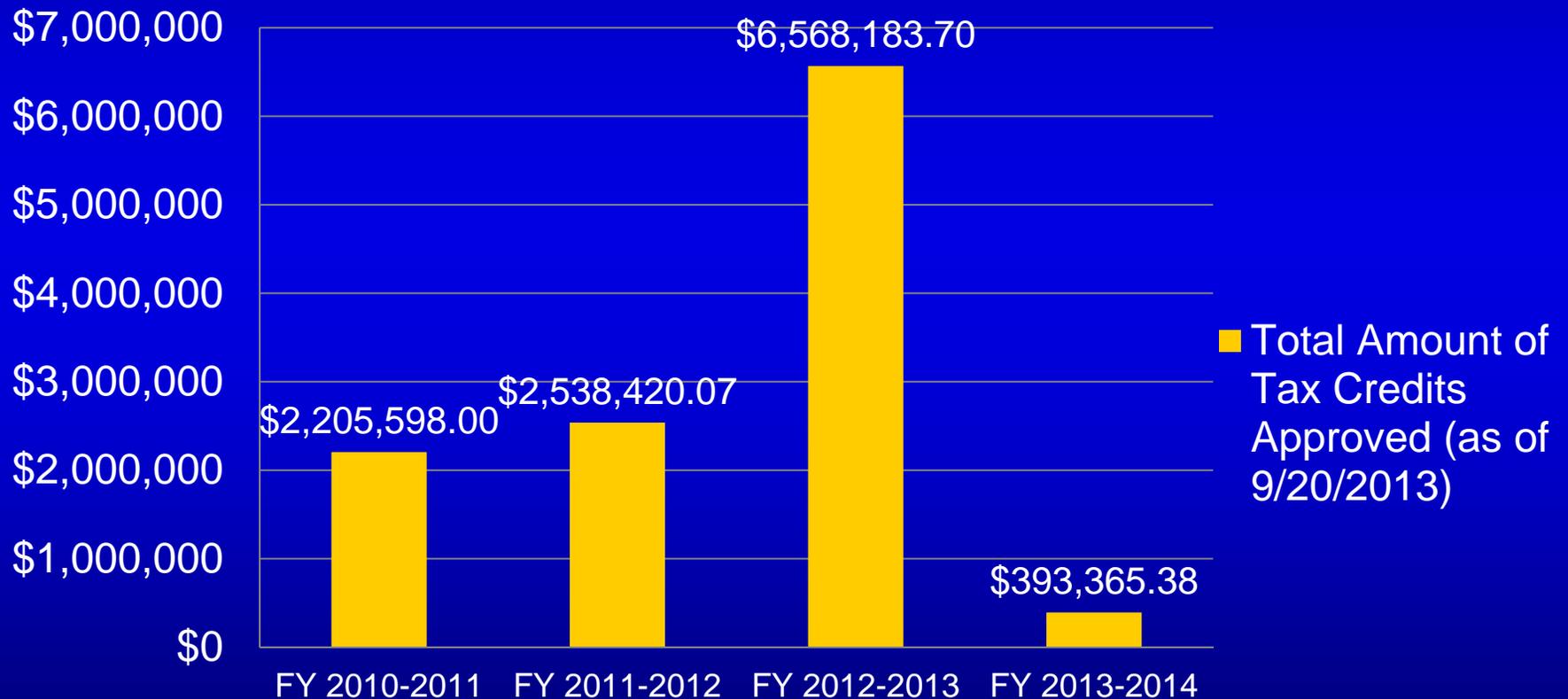
Neighborhood Assistance Act Tax Credit for Education

Donor/Taxpayer

- **The tax credit is equal to 65% of the qualified donation.**
- **Minimum donation amount eligible for tax credits:**
 - **Individuals – \$500 in a taxable year (a tax credit of \$325)**
 - **Businesses – \$615.39 in a taxable year (a tax credit of \$400)**
- **Maximum donation limitations:**
 - **For individuals, the maximum aggregate amount of donations eligible for tax credits is \$125,000 in a taxable year (which equates to \$81,250 in tax credits).**
 - **There is no maximum donation limitation for businesses.**
- **Types of acceptable donations:**
 - **Individuals – monetary and marketable securities**
 - **Businesses – monetary, marketable securities, motor vehicles, merchandise (other than motor vehicles), rent/lease of a facility, professional services**
 - **The Department issues a tax credit certificate to the donor**

Neighborhood Assistance Act Tax Credit for Education

Total Amount of Tax Credits Approved by DOE



Education Improvement Scholarships Tax Credits

- **The Education Improvement Scholarships Tax Credits Program provides state tax credits for persons or businesses making monetary or marketable securities donations to approved scholarship foundations that provide scholarships to eligible students for qualified educational expenses incurred in attending eligible nonpublic schools of their choice.**
- **Recipients of the tax credit-derived scholarships:**
 - **student's whose household income is not in excess of 300% of the federal poverty guidelines; or**
 - **eligible students with a disability whose household income is not in excess of 400% of the federal poverty guidelines.**

Education Improvement Scholarships Tax Credits

2013 Legislative Changes

- **Removed the donation limitation for married couples**
- **Increased the maximum amount of tax credits that an individual may be issued in a taxable year from \$50,000 to \$81,250 (which equates to an aggregate donation value of \$125,000).**
- **Made the minimum and maximum donation amounts (\$500 and \$125,000) applicable to individuals only.**
- **Allows donations of marketable securities to qualify, and requires that such donations be converted into cash no more than fourteen days after receipt of the donation.**

Education Improvement Scholarships Tax Credits

2013 Legislative Changes (Cont'd)

- Revised the financial reporting requirement for scholarship foundations.
 - A scholarship foundation must provide a copy of an audit or review for the most recent year ended performed by an independent certified public accountant, or a compilation performed by an independent certified public accountant if the organization's total revenues (including the value of all donations) were \$100,000 or less for the most recent year ended.
- Amended the definition of "student" for purposes of qualifying to receive a scholarship from a scholarship foundation.

Education Improvement Scholarships Tax Credits

2013 Legislative Changes (Cont'd)

- Amended the time frame during which scholarship foundations must disburse at least 90 percent of the value of donations for which tax credits were issued.
- Made changes to the annual report submitted by scholarship foundations on tax credit-derived donations and scholarships awarded during the foundation's most recent fiscal year.
- Imposes penalties on scholarship foundations that fail to satisfy the 90 percent disbursement requirement or the annual reporting requirement.
- Extended the expiration date of the tax credit to **December 31, 2027.**

Education Improvement Scholarships Tax Credits

Scholarship Foundations

- **Scholarship foundations must apply to the Department to be approved to receive and administer tax credit-approved funds.**
- **A scholarship foundation must:**
 - **be a nonstock, nonprofit corporation that is exempt from taxation under IRC § 501(c)(3);**
 - **be established to provide financial aid for the education of students residing in the Commonwealth; and**
 - **provide scholarships to students of more than one school.**
- **Scholarship foundations are approved on a rolling basis.**
 - **Twelve (12) entities have been approved since January 1, 2013.**
 - **A current list of approved scholarship foundations is available on the Department's Web site.**
- **Scholarship foundations must disburse 90% of the funds (in the form of scholarships) it receives between July 1 and June 30, by the following June 30.**

Education Improvement Scholarships Tax Credits

Eligible Students

- **To be eligible to participate in the program, a student must meet one of the following criteria:**
 - 1) **Virginia resident and attended a public school for at least one-half of the year in the current school year;**
 - 2) **Virginia resident and attended a public school for at least one-half of the school year that immediately preceded his receipt of a scholarship foundation scholarship;**
 - 3) **Virginia resident and is a prior recipient of a scholarship foundation scholarship;**
 - 4) **Virginia resident and is eligible to enter kindergarten or first grade; or**
 - 5) **For the school year that immediately preceded the receipt of a foundation scholarship the student was domiciled in another state and did not attend a nonpublic school for more than one-half of the school year.**

Education Improvement Scholarships Tax Credits

Taxpayer/Donor - Preauthorization Process

- **Donors must apply to the Department for a preauthorized amount of tax credits.**
 - **Tax Credits are preauthorized on a first come, first served basis.**
 - **The total amount of tax credits that may be preauthorized in a fiscal year is \$25 million.**
- **A donor will receive a preauthorization notice from the Department if approved for tax credits.**
 - **The preauthorization notice must accompany the monetary or marketable securities donation.**
 - **The preauthorization notice must also be approved by the scholarship foundation upon receipt of the donation and submitted to the Department by the scholarship foundation.**

Education Improvement Scholarships Tax Credits

Taxpayer/Donor - Donation

- **A donor has 180 days to make a donation and submit the preauthorization notice to the scholarship foundation.**
- **Minimum and Maximum Donation Amount:**
 - **The minimum donation amount eligible for tax credits for individuals is \$500 in a taxable year.**
 - **The maximum donation amount eligible for tax credits for individuals is \$125,000 in a taxable year (which equates to \$81,250 in tax credits).**
 - **There is no minimum or maximum limitation for business entities, including sole proprietors.**
- **The scholarship foundation has 20 days to submit a completed notice and documentation verifying the donation to the Department.**

Education Improvement Scholarships Tax Credits

Taxpayer/Donor - Approved Tax Credit

- **The tax credit is equal to 65 percent of the monetary or marketable securities donation.**
- **A tax credit certificate will be mailed to the donor within 30 days.**
- **The tax credit is claimed beginning in the taxable year following the year in which the donation was made.**
- **Unused tax credits may be carried over for up to 5 years.**

Education Improvement Scholarships Tax Credits

Summary of Tax Credits Preauthorized and Issued
through September 20, 2013

| | Program Year 1/1/2013 – 6/30/2013 | Program Year 7/1/2013 – 6/30/2014 |
|---|--------------------------------------|--------------------------------------|
| Total Tax Credits in a Program Year | \$25,000,000 | \$25,000,000 |
| Preauthorized Tax Credits Carried Over From Previous Program Year | N/A | \$87,272.28 |
| Tax Credits Available for Preauthorization | \$25,000,000 | \$24,912,727.72 |
| Total Tax Credits Preauthorized | \$189,597.28 | \$130,559.00 |
| Tax Credits Issued | \$102,325 | \$114,702.28 |

Education Improvement Scholarships Tax Credits

Reporting Requirements

- ***Scholarship Foundations***
 - **By September 30 of each year, beginning September 2014, must provide the Department with information on the value of contributions they received and the dollar amount of scholarships disbursed during their most recent fiscal year.**
- ***Eligible Schools (with students receiving scholarships)***
 - **Submit a student achievement report for students that received scholarships to the Department by December 1 each year.**
 - **The Department will publish the aggregate test results on its website beginning with the third year of testing of each student .**
- ***Virginia Department of Education***
 - **Submit a list of approved scholarship foundations receiving tax credit-derived donations to the House and Senate Finance Committees by December 1 of each year.**

Web Page Information

Neighborhood Assistance Act Tax Credit Program

http://www.doe.virginia.gov/school_finance/neighborhood_assistance_act/index.shtml

Education Improvement Scholarships Tax Credits Program

http://www.doe.virginia.gov/school_finance/scholarships_tax_credits/approved_scholarship_foundations.pdf

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Appendix A

Neighborhood Assistance Act Tax Credit

Approved Neighborhood Organizations

| | | | |
|--|--|---|---|
| Access College Foundation | Commonwealth Christian Academy, Inc. | GREAT Aspirations Scholarship Program , Inc. (GRASP) | Peter Paul Development Center |
| An Achievable Dream Middle and High School Inc. | Communities in Schools of Richmond | Horizons Hampton Roads | Project Discovery of Virginia, Inc. |
| An Achievable Dream, Inc. | Computers4Kids | Literacy Council of Northern Virginia | Rita Welsh Adult Literacy Program / DBA Literacy for Life |
| Anna Julia Cooper Episcopal School | Crispus Attucks Cultural Center, Inc. | Lutheran Family Services of Virginia, Inc. | Soundscapes, Inc. |
| Apple Ridge Farm, Inc. | Downtown Hampton Childcare Council, Inc. / DBA Downtown Hampton Child Development Center | The McMahon Parater Foundation for Education | Stafford Junction, Inc. |
| Beacon of Hope Lynchburg | Dunlap Garrick Christian Community Foundation | New Vistas School of Central Virginia | St. Andrew's School |
| Boys & Girls Clubs of Virginia Peninsula Foundation, Inc. | Elijah House Academy | Norfolk Collegiate Educational Foundation, Inc. | Virginia Air and Space Center Opportunity Program, Inc. |
| Cape Henry Collegiate School Students' Assistance Foundation | Elk Hill Farm, Inc. | Old Dominion University Community Development Corporation | Virginia Sports Hall of Fame Educational Foundation, Inc. |
| Chesapeake Bay Academy Educational Foundation | Families of Autistic Children in Tidewater | Park Place School, Inc. | Wytheville Community College Scholarship Foundation, Inc. |
| Church Hill Activities and Tutoring | ForKids, Inc | Partnership for the Future, Inc. | |

Appendix B

Education Improvement Scholarships Tax Credit

Approved Scholarship Foundations

| | |
|---|--|
| Anna Julia Cooper Scholarship Foundation | McMahon-Parater Foundation for Education |
| Association of Christian Schools International (ACSI Children's Tuition Fund) | Pathway Christian Academy |
| Capstone Legacy Foundation | Precious Blessing Academy |
| Diocese of Arlington Scholarship Foundation, Inc. | Richmond Jewish Foundation |
| Faith First Educational Assistance Corporation | The Community Foundation of Harrisonburg and Rockingham County |
| Great Aspirations Scholarship Program (GRASP) | Tidewater Jewish Foundation, Inc. |