

DEPARTMENT OF TAXATION

2022 Fiscal Impact Statement

1. **Patron** Rodney T. Willett

3. **Committee** House Finance

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

2. **Bill Number** HB 402

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would expand the Communities of Opportunity Tax Credit to census tracts located in Virginia in which less than 40 percent of the residents live below the poverty level. The existing credit is limited to census tracts in the Richmond Metropolitan, Virginia Beach-Norfolk-Newport News Metropolitan, and Washington-Arlington-Alexandria Metropolitan Statistical Areas in which less than 10 percent of the residents live below the poverty level. The current 10 percent threshold would continue to apply with respect to census tracts in these specific areas. The new 40 percent threshold would apply to census tracts elsewhere in Virginia.

If this bill is enacted during the 2022 Regular Session of the General Assembly, it would become effective July 1, 2022.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation and the Department of Housing and Community Development consider implementation of this bill as routine, and do not require additional funding.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2023. This bill would expand the geographic area within Virginia that qualifies for purposes of the credit. However, it is unknown how many eligible landlords with qualifying housing units within the newly included region would qualify for and claim the credit.

For Fiscal Year 2015 through Fiscal Year 2021, an average of \$51,311 in Communities of Opportunity Tax Credits were claimed each year by an average of 13 taxpayers. The credit is currently capped at \$250,000 per fiscal year. Therefore, the potential negative revenue impact of this bill would be limited by the existing credit cap.

Fiscal Year	Number of Credits Claimed	Amount of Credits Claimed
2015	20	\$42,041
2016	11	\$53,266
2017	12	\$71,500
2018	8	\$27,909
2019	0	\$0
2020	23	\$62,490
2021 (Preliminary)	19	\$101,974

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Housing and Community Development

10. Technical amendment necessary: No.

11. Other comments:

Communities of Opportunity Tax Credit

During the 2010 Session, the General Assembly established the Communities of Opportunity Tax Credit for landlords with qualified housing units located in census tracts with poverty rates of less than 10 percent in the Richmond Metropolitan Statistical Area who participate in a housing choice voucher program. The amount of tax credit for an eligible property is based on 10 percent of annual fair market rent for that specific unit and prorated when units are qualified for less than the full taxable year. For purposes of the credit, a “qualified housing unit” includes a dwelling unit that is located in an eligible housing area for which a portion of the rent is paid by a housing authority, and payment is pursuant to a housing choice voucher program.

The tax credit was initially capped at \$450,000, but the cap was reduced during the 2013 General Assembly Session to \$250,000.

During the 2019 Session, the General Assembly expanded the credit to include the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area. During the 2020 Session, the General Assembly expanded the credit to include the Washington-Arlington-Alexandria Metropolitan Statistical Area.

Proposed Legislation

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existing credit is limited to census tracts in the Richmond Metropolitan, Virginia Beach-Norfolk-Newport News Metropolitan, and Washington-Arlington-Alexandria Metropolitan Statistical Areas in which less than 10 percent of the residents live below the poverty level. The current 10 percent threshold would continue to apply with respect to census tracts in these specific areas. The new 40 percent threshold would apply to census tracts elsewhere in Virginia.

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cc : Secretary of Finance

Date: 1/23/2022 JLOF
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