Policy Report

Tax Credits and IDA Programs

Gena S. Gunn, Anupama Jacob, Melinda Lewis

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Center for Social Development

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George Warren Brown School of Social Work

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Introduction

Individual Development Accounts (IDAs), a new economic policy instrument, were introduced by Michael Sherraden in 1991. IDAs are part of an asset-building policy strategy that seeks to reduce wealth inequality by enabling asset-poor individuals to accumulate assets. Low-income individuals establish savings accounts matched by public and private resources, which are then used to purchase assets. Part of the rationale for the use of public resources for IDAs is that the non-poor already receive large subsidies for asset accumulation through tax benefits, which the poor cannot take advantage of (Sherraden 1991, 2001). Savings accrued in IDAs are generally used for home ownership, business capitalization, and post-secondary education.

Neoclassical economic theories have primarily viewed saving and asset accumulation as a function of long term economic resources and individual preferences. These theories, however, tend to be generalized and somewhat biased toward middle and high-income groups. The poor lack access to institutionalized and subsidized savings programs (Sherraden 1991, 2001). Beverly and Sherraden (1999), suggest that institutional factors such as saving structures and incentives, e.g., a 401(k) program, may be as or more important than individual preferences in determining saving behavior and performance.

Asset-based policies shift the focus from recent trends that favor consumption and income maintenance toward increasing the ability of low-income families to invest in their futures and toward long-term economic and social development. The definition of assets includes human capacity building, financial savings, and personal investments. Sherraden (1991) suggests that assets may have a wide range of positive personal and social effects, such as economic security against temporary financial setbacks, increased social influence, and increased planning and orientation towards the future.

According to Midgley (1995, 2000), social development strategies have several characteristics: They integrate economic and social policies, promote effective participation in the economy, and attain “people-centered” (p. 9) economic development outcomes such as increased employment or income. Social development policies and programs are also interventionist; they are actively supported by the government and usually involve redistribution of resources.

IDA policies created demonstration programs in most states. As noted by Edwards and Mason (2003), the trend toward implementing IDA policy as demonstration or short-term programs developed chiefly because the idea was new, and significant long term funding was not available. Policy advocates found that it was more feasible to seek short-term funding support. Through initial policy efforts, advocates sought and received public funding support that included, but was not limited to, federal, state, county, and city dollars. Additionally, foundations, financial institutions, and corporations supported IDA programs. As these initial short-term funding sources began to dwindle, policy advocates and program administrators realized that dedicated funding streams would be needed to sustain this policy movement. As the search for sustainable funding increased, so did interest in using tax credits to support IDAs. Tax credit programs were serving as sustainable funding streams for other economic development programs such as the low-income housing tax credit for affordable housing production. IDA policy advocates soon began to realize that tax credit policies for IDAs could provide viable funding resources.

Tax credit programs have emerged as a community economic development strategy in the United States over a number of decades. These programs are designed to advance public policy goals by leveraging private sector funding. During recent years several national-level social welfare and community development organizations have backed proposals for state and federal legislation incorporating tax credits for IDAs.

Federal tax credit legislation for IDAs, the “Savings for Working Families Act” (SWFA), is currently under consideration in Congress. If passed, this legislation would allow 100 percent tax credits to financial institutions for contributions to IDAs, but does not allow similar contributions by individuals to be counted as charitable deductions. The Secretary of the Treasury, as the administering authority, could issue regulations allowing individual taxpayers to claim a percentage of the tax credits.

SWFA legislation has the backing of the current administration and bi-partisan support from lawmakers, along with numerous national and local foundations, non-profit organizations, corporations and banks. Although SWFA has not yet been enacted, it came close to passage in both 2001 and 2002. The bill is included in the Bush Administration’s broad charitable giving package called the “Charitable Aid, Recovery, and Empowerment Act” (CARE), S. 1924, and has passed the Senate. If this legislation also passes the House, the Department of the Treasury would administer the IDA tax credit program. Federal tax credits for IDAs, as a policy tool, would provide a considerable funding stream for IDAs, offering administrative and matching dollars for up to 300,000 IDAs over a nine-year period.

Ten states have already passed legislation that includes tax credits for IDAs: Arkansas, Colorado, Connecticut, Hawaii, Indiana, Kansas, Maine, Missouri, Oregon, and Pennsylvania. The tax credit percent enacted in each bill varies from state to state, ranging from 5 to 75 percent, with appropriations ranging from $25,000 to $25 million (CSD, 2002).

This paper will examine the overall structure, benefits, and barriers of state tax credit legislation including case studies of four states that have successfully passed IDA legislation with tax credit appropriations, and make recommendations for the development of strategies that could help promote tax credit appropriations for state IDA programs.

Definition of Tax Credit

Tax credits reduce the tax liabilities of individuals or corporations in exchange for contribution to or participation in a designated activity. These credits have the effect of reducing the state and/or federal taxes owed by a taxpayer by the stated amount of the credit, which is either a percentage of the dollar amount contributed or a flat credit for an approved donation or service. For example, a 50 percent tax credit for contributing to a state scholarship fund would mean that the contributing individual would see his/her tax liability reduced by $5000 for a $10,000 donation, provided that this amount falls within the range of the individual cap for the credit; that the individual’s tax liability is more than $5000; and that some proof of contribution is provided.

Purposes of State Tax Credits

Tax credits are used by states for many economy-building purposes. While not exhaustive, the list in Appendix II provides some examples of tax credits and the states using them. All tax credits are tied to a state's economic policy and/or interests in some way and can often be linked to lobbying efforts. Most tax credits are connected directly or indirectly to attracting business to the state (e.g. cleaning up urban neighborhoods [indirect], or credit for relocation of a corporation's headquarters [direct].

However, specific priorities vary by region. For example, states using traffic-reduction credits are located in the population-dense Northeast, while farm worker related tax credits appear only in California. Agricultural tax credits are concentrated in the West, while environmental and business enticement credits are employed throughout the country. Some states are undoubtedly more aggressive with tax credits than others. Missouri currently has 53 tax credit programs while Wyoming has none, with most states averaging somewhere in between.

Pros and Cons: Tax Credits and Tax Deductions

Tax Credits

Since a tax credit is a direct reduction in taxes owed, individual taxpayers, as well as corporations and businesses, can benefit from them. First, the tax-paying contributor receives a tax reduction, with the amount depending on the percentage of the tax credit. Second, taxpayers can deduct a portion of the contribution from federal income tax (and often from state income tax). The amount of income that is deductible depends on the tax bracket of the individual or corporation. Tax credits give taxpayers the chance to directly lower their tax liability, sometimes substantially, and to allocate where their contributions are spent. In many cases, depending on how the law is written both businesses and individuals (non-itemizers or itemizers) are able to receive tax credits.

A main challenge for organizations trying to leverage tax credits is that the availability of the credits is not widely known. Many organizations, approved by the state to offer tax credits, do not have the expertise to market the credits well. It may take years to develop a donor base to support leveraging of a significant amount of tax credits. Additionally, tax credit programs are difficult to maintain in some states, because credits allocated are based on a surplus of state revenue.

Tax Deductions

Charitable contributions may also qualify the giver for a tax deduction, without the benefit of a tax credit. Charitable contributions are often made without the donor receiving or expecting to receive anything of similar value in return. Regarding tax deductions, tax itemizers may deduct contributions up to 50 percent of their adjusted gross income from federal and state income tax. According to the Tax Reform Act of 1986, non-itemizers are not allowed to deduct charitable donations on their federal or state income tax returns.

Tax deductions can be powerful incentives for charitable giving. Charitable contributions that allow tax deductions are effective but yield fewer direct benefits to taxpayers compared to tax credits. Unlike tax credits, tax deductions (taken for charitable contributions) reduce only a portion of taxable income owed. Also, if the taxpayer receives anything in return for the donation such as merchandise, goods or services, only the amount that exceeds the fair market value of the charity's thank-you benefit can be deducted. For example, if an individual gives the local PBS station $100 and receives a videotape worth $25 in return, only $75 can be deducted. For a contribution of $250 or more, a written receipt from the qualified organization must be received before it can be claimed as a deduction. Also, tax deductions for charitable giving must be directed to an organization rather than specific programs within an organization.

Why Tax Credits for IDAs?

IDA tax credit legislation offers several benefits for states. First, it offers an incentive to build statewide IDA coalitions, leveraging efforts in multiple regions. Second, it creates more sustainable funding streams for matching dollars for IDA accountholders. Third, tax credits can provide administrative dollars to support the management of IDA programs. Lastly, tax credits allow major corporations and individual taxpayers (with tax liabilities) to be socially responsible by directing their charitable giving to non-profit organizations that provide low-income families opportunities for economic improvement.

The first state tax credit legislation for IDAs passed in 1997 and has influenced similar legislation in other states. As mentioned earlier, tax credit legislation has passed in ten states. Each state’s legislative and regulatory characteristics vary. Table 1 illustrates each state’s tax credit percentages, caps, amount leveraged, marketing plan, and other funding available for IDAs.

Table 1. States with IDA Legislation and Tax Credits Appropriated

State	Tax Credit Percentage	Caps: Individual/Total	Amount Leveraged	Marketing Plan	Other Credits	Other Funding Available for IDAs
Arkansas	50%	$25,000/$100,000	None as of April 2003.	All five organizations are currently developing a marketing campaign.	None	TANF; AFIA grant; foundation funds
Colorado	25%	$100,000/$25 million (over 5 years) *Program currently suspended due to lack of budget surplus.*	Successful at leveraging other credits; started in 2001 with IDAs. Approximately $20,000 in fiscal year 2001 before program suspended.	Collaborating on participant and donor outreach with churches, financial planners, mass media, labor unions, and community-based organizations.	None	TANF; County Maintenance of Effort funds; private funds
Connecticut	5%	No set cap.	None as of April 2003. Outreach and leverage was limited until State Dept. of Labor completed rules and regulations for IDA use.	Existing tax credit (HD Tax Credit of 5%) approved for IDAs. Credit cannot exceed tax liability; 5-year carry over.	HD Tax Credit	State general funds; AFIA grant; private funds
Hawaii	50%	None/$1 million (over 5 years)	None as of April 2003.	No plan yet finalized; collaborative loosely organized; outreach will be centralized.	None	Financial institutions; foundation funds; AFIA grant
Indiana	50%	$50,000/$200,000 (Originally capped at $500,000 total.)	Leveraged $24,000 in fiscal year 2001-2002. First quarter of 2002-2003 leveraged $32,100	Presentations to corporations and individuals.	None	State general funds
Kansas	50%	$6,250	None as of April 2003.	No plan; IDAs for assistive technology purchases only, no program developed yet.	None	None

Table 1. -Continued

State	Tax Credit Percentage	Caps: Individual / Total	Amount Leveraged	Marketing Plan	Other Credits	Other Funding Available for IDAs
Maine	50%	$25,000/$200,000	Limited as of April 2003.	New marketing campaign: Information included in tax forms, mailings to tax and financial planners, conferences, brochures.	None	Private funds.
Missouri	50%	$50,000/$4 million	Successful with NAP credits; limited to IDAs	Presentations, newsletters, public service announcements.	NAP	AFIA; private funds.
Pennsylvania	50%	No set cap for IDAs	NAP tax credits approved for IDAs. No figures available for total amount leveraged. In 2002 NAP tax credit appropriation may increase to $30 million annually from current $18 million.	NAP credits leveraged with success because outreach is combined with other tax credit programs. Several hundred organizations statewide leverage NAP credits for community development and community service projects.	None	AFIA; TANF; state housing trust funds.
Oregon	75%	$25,000/$500,000	$70,000 in 1999-2001. $660,000 (total), 2001-2002.	Contracted assistance from public relations agency.	None	Foundation funds; financial institutions; private funds; CDBG; county funds; AFIA grant.

Source: All information based on phone and email surveys of contacts listed in Appendix III.
AFIA: Assets for Independence Act
CDBG: Community Development Block Grant
HD: Human Development
NAP: Neighborhood Assistance Program
TANF: Temporary Assistance for Needy Families
Note: Ohio and Iowa allow special tax deductions for IDAs, but no tax credits

Primary Types of Tax Credits

Tax credits may be primarily categorized as individual, corporate, transferable, refundable, or deferrable. The addendum at the end of this paper describes other examples of tax credits.

1) Individual

Some tax credits can be claimed by individuals and may include credits for IDAs, community-economic development, selected charitable purposes, and environmental conservation efforts. These credits have proven to be difficult to leverage, however, because of issues such as limited information dissemination and low tax liability for many individuals.

2) Corporate

Most tax credits are targeted at businesses in an attempt to exert influence over their actions and/or to lure them to locate in certain areas. Businesses are, as a general rule, “in the market” for tax credits more often than individuals because they have larger tax liabilities. It is also easier and less costly for states to inform corporations about tax credits. Some states have centralized organizations that advise businesses of area tax advantages. Tax credits that can be issued to both individuals and corporations are also more desirable since the base of possible donors can then be broadened.

3) Transferable

Despite corporations having larger tax liabilities than most individuals, corporate taxation is declining at both the state and federal levels, making tax credits less attractive in some instances. Some corporations have all the tax credits they can use without exceeding their tax liability. Therefore, the most popular tax credits are those that are transferable, allowing businesses to participate in eligible activities for credits and then selling the credits to non-participating businesses that need to reduce tax liabilities.

4) Refundable

Some tax credits are refundable, which means that in the event the credit exceeds the individual or corporation’s tax liability, the difference is refunded to the taxpayer. Few tax credits provide for such refunds, which limits the fiscal risk to government, but, in effect, discourages individuals and/or corporations with low tax liabilities from fully participating in tax credit programs. Examples of a refundable tax credit are Earned Income Tax Credit (EITC) and the Child Care Tax Credit.

5) Deferrable

Tax credits that are deferrable may be used over a period of years. Deferrable tax credits provide flexibility in that corporations are not required to use them in the year they are purchased. Tax credits that can be used over several years are generally known to be more desirable than those that must be used within the year of issue.

Considerations in Designing Tax Credit Programs

During an interview with a tax planner and certified public accountant, it was noted that corporations indicated transferability, return on investment, and compatibility with corporate giving priorities as the key considerations in choosing a type of tax credit investment. . Clearly then, designating tax credits as transferable, so that corporations can "sell" them to others will make them more desirable. Financial institutions and corporations also prefer to purchase larger amount of tax credits ($100,000 - $500,000 worth). States in which contributors are allowed to take state and federal charitable deductions for their donations, in addition to receiving tax credits, can improve the overall package of tax relief that these programs offer. Proposed tax cuts at the federal level, however, could make state tax credits less attractive, especially to individuals and corporations whose tax bracket would be lowered under President Bush's proposed consolidation of tax relief.

Total tax credits of under $1 million for an entire state may be insufficient to support several tax credit programs, and tax credits of under 50 percent are often unable to compete with similar tax credits of greater value. State utilization of community development credits, however, does not seem to appear to depend as much on the size of the allowable credit as one might think. For example, Colorado (that allocated $25 million in tax credits annually) has had great success in attracting donations with 25 percent credits, while the 50 percent credits in Arkansas and Maine have leveraged less than $50,000 to date between the two states. It appears that strategic marketing and outreach efforts are the best predictors of successful leveraging of credits, provided that state advocates have an effective state law and adequate allocation of credits to work with. For example, states with very small allocations of tax credits, like Arkansas with $100,000 tax credits annually, have indicated that it is not cost-efficient for them to dedicate significant resources toward leveraging a small pool of funds. Implementation of Connecticut's program had to be postponed while state agencies sorted out complex regulations, so that authorized agencies could begin marketing the available credits.

Corporations that contribute sizeable amounts to IDA programs may do so for reasons other than a tax credit incentive. For example, Connecticut received almost $800,000 in corporate contributions to start its programs, but all these investments were made before the tax credit program became operational. Lessons could be learned from these investments. For example, what enticed these corporations to contribute funds without the benefits of tax credits, and how would incentives such as tax credits have affected their decision to contribute?

Community Development Tax Credits Used for IDAs

The types of state tax credits that can be used for IDAs vary by state. For example, in Missouri, IDA advocates requested tax credit officials at the Department of Economic Development to include IDAs as allowable uses of Neighborhood Assistance Program (NAP) tax credits, before an IDA tax credit was established by legislation. Pennsylvania has NAP tax credits that can be used for IDAs. Since NAP credits are also in existence in Connecticut, Illinois, Indiana, and Virginia (all of which are states with IDA legislation), it seems likely that these states could add IDA programs as an allowable use of NAP credits as well.

Other states may, also have tax credits established for non-IDA uses that could possibly be used for IDAs. For example, advocates in South Carolina are exploring the possibility of using Community Development Corporation (CDC) and Community Development Financial Institution (CDFI) tax credits for IDAs. The challenges to using a variety of tax credits for IDAs lie in identifying likely credits, negotiating with state agencies to have IDAs approved as an allowable use of the credits, and then beginning the process of outreach to entities qualified to contribute. Use of a variety of tax credits can create greater efficiency in the leveraging of tax credits, including those specifically for IDAs. For example, Indiana's most successful agency for leveraging IDA tax credits was built on a successful history of leveraging federal housing credits. In order to find out if specific community development credits support (or can be used for) IDAs, the department that administers the tax credit in question must be contacted.

Table 2 illustrates states with IDA legislation and no appropriation for tax credits. Although Iowa has IDA legislation but no tax credit appropriation, the state has a unique application of the tax credit concept; IDA participants receive a formulated refundable tax credit for their contributions through an existing state savings program, thus using tax policy at the individual level to effectively "match" a family's savings effort. The key to these credits is refundability, without which the credit would not be useful with the targeted population.

There are several states that have IDA programs without any legislation. Table 3 shows states that have IDA programs without any legislation and progress being made towards developing IDA tax credit legislation.

Table 2. States with IDA Legislation and No Tax Credits Appropriated

State	IDA Tax Credit Activity	Other Credits that Can be Used for IDAs	Other Funding for IDA Programs
Iowa	Prior to state budget constraints there were plans to introduce legislation with tax credits in 2002, including a bill to increase state savings refund levels. *Introduced tax credit legislation in 2001 with an increase in the refundable credit. Did not pass.*	Refundable tax credit (RTC) for participants' investments in IDAs. Works as a grant through standing appropriations. Based on household income level sliding scale (15%, 20%, 25%). RTCs are not well utilized.	AFIA grant; state general funds; TANF; private funds.
Maryland	Organizations have difficulty leveraging tax credits because few companies (i.e. banks) owe state taxes. No plans to try for an IDA-specific tax credit.	Neighborhood Partnership (NP) tax credits may be a possibility for IDAs. NPs capped at $1 million per year.	State general funds.
Michigan	Not considering tax credits at this time. Similar tax credits have not demonstrated success in Michigan.	None	TANF; private funds.
Minnesota	Planned to introduce tax credit legislation in 2002 (unsure of credit amount). Banks indicated interest in tax credit incentive. No other activity at this point.	None	State general funds; private funds; AFIA grant.
New Jersey	In 2001, a bill for Housing and Neighborhood Revitalization tax credits passed, providing up to $65 million in tax credits in 2002, depending on the appropriation. Advocates of bill chose not to pursue IDA-specific tax credit that year.	None	TANF; private funds; AFIA grant.

Table 2. -Continued

State	IDA Tax Credit Activity	Other Credits that Can be Used for IDAs	Other Funding for IDA Programs
North Carolina	No tax credits or consensus on benefits of tax credits as of June 2001.	None	TANF; CDBG; State general funds.
Ohio	Tried to get tax credit but was changed to a deduction. Deduction difficult to leverage - not currently marketed.	None	CDBG; TANF; Housing Trust Fund.
Oklahoma	None.	None	TANF
Tennessee	None. Movement currently underway to gain statewide income tax to generate more development funds.	None	TANF
Texas	None	None	TANF
Vermont	None	None	TANF; state general funds; AFIA grant.

Source: All information based on phone and email surveys of contacts listed in Appendix III
AFIA: Assets for Independence Act
CDBG: Community Development Block Grant
TANF: Temporary Assistant for Needy Families

Table 3. States with No IDA Legislation but with Multi-Site IDA Programs; Tax Credit Progress

State	IDA Program Development	Tax Credit Progress
Delaware	Collaborative of nonprofits and businesses applying for AFIA funds for almost 600 accounts. Difficult to get operating and match money without state support. Collaborative is waiting for responses to program plans from implementing organizations and financial institution partners. New governor supports IDAs. Funding from CitiGroup, religious organizations, foundations; YWCA (one of four sites of YWCA IDA pilot project).	Looking toward SWFA tax credits as a possible funding mechanism. IDA-specific tax credits not currently on Delaware's political horizon.
Georgia	Multi-site initiative funded by United Way of Metropolitan Atlanta. Sites in other Georgia cities not supported by initiative. Efforts are being made to create statewide collaborative.	IDA legislation (HB397) offered last session included 50% tax credit for contributions up to $50,000 annually by individuals, businesses, or organizations. Cap set at $2 million annually. Bill did not pass.
Illinois	(Administrative rule) Demonstration project at three sites in southern Illinois. Focuses on financial education and IDAs. Private foundations and corporations, state Human Services allocation.	Looking into possibility of creating legislation providing tax credit appropriation for IDAs or using other state tax credits.
Kentucky	Legislation allows for TANF funding but not being used. Significant resistance to tapping into TANF funds.	State currently has housing tax credits not approved for use with IDAs.
Massachusetts	Several IDA program sites within state. Collaboration is forming. No legislation passed to date.	State tax credits are desired for IDAs. Legislation created to include tax credits as a part of funding mechanism but did not pass. Exploring other tax credits that may support IDA development. Collaborative working on these issues.
Montana	IDA program established by Administrative Rule. TANF funds were appropriated by the State, but then withdrawn due to budget shortfalls.	None

Table 3. -Continued

State	IDA Program Development	Tax Credit Progress
Nevada	State Welfare-to-Work Dept. relinquished IDA program. Program never got off the ground. Fannie Mae, Wells Fargo, Bank of America, and Welfare-to-Work funds were to be used.	Some discussion of tax credits because businesses would like to receive incentives for supporting IDA programs. Number of accounts might increase if tax credits used.
New York	Negotiating with Department of Labor for pilot project. Looking for $5 million in state funds (or TANF) for three-year pilot program. Trying to increase maximum income requirement to 80% of area median income (to adjust for geographic variation).	None
Rhode Island	Demonstration project funded through United Way and financial institution partner. Still "selling the concept" of asset development to local players. Current emphasis on evaluation and demonstration of results for families. Looking at state and federal (AFIA) funds to expand program options and funding sources. State currently taxes interest earned on IDA investments by savers, which is target of change. IDA legislation not used, except a small business program that expired in summer 2001.	Looking at tax credits as possibility for diversifying IDA funding. State Treasurer interested in IDAs and could be advocate for tax credits as well. IDA advocates support tax credits, but feel program too new to make effort.
South Carolina	Coalition established to implement multi-site IDA program. Accounts are open using TANF; DSS state funds; AFIA grant.	Possible use of tax credit for CDCs and CDFIs. Trying to get tax credit for first time homebuyers channeled to IDAs.
Virginia	(Administrative rule) State supported program at five sites funded by TANF Maintenance of Effort funds, CDBG.	None. 1996 legislative proposal to develop tax credit-based IDA program failed.
Washington	(Administrative rule) Six-site program run by the state, using TANF funds.	None
Wisconsin	State Community Action Program Association (WISCAP) runs a 15 site IDA program using TANF, ORR, CDBG, AFIA Grant, and private funds.	None

Source: All information based on phone and email surveys of contacts listed in Appendix III
AFIA: Assets for Independence Act
CDC: Community Development Corporation
CDFI: Community Development Financial Institution
DSS: Department of Social Services
ORR: Office of Refugee Resettlement
SWFA: Savings for Working Families Act
TANF: Temporary Assistance for Needy Families

A Study of Four State IDA Tax Credit Programs

Four of the ten states that have passed tax credit legislation and are actively using tax credits to generate income to support IDA programs were interviewed (interviewee list can be found in Appendix III). This study sought information regarding how states develop and implement tax credit programs. Each state is unique in its approach toward seeking tax credit legislation and in the management of the tax credit program. These data have the potential to 1) provide information to other states that may be interested in passing tax credit legislation, 2) assist states that have passed tax credit legislation but have been unsuccessful at leveraging the credits, 3) give states potential strategies for leveraging tax credits in the event that the SWFA passes, and 4) show states the potential for tax credits as a viable funding stream for IDAs in their state. Website addresses to the legislation and/or administering state department in each of the states can be found in Appendix IV.

Data

The data in this report was gathered through interviews of 20 people in Colorado, Indiana, Missouri and Oregon. The interviews were conducted by phone and during site visits. The interview questions pertained specifically to the interviewee's expertise and experience with IDA legislation, program development and/or state administration policy. The interview questions listed in Appendix I are representative of all questions asked. Other general state information about tax credits was obtained from state websites.

Methodology

Each site visit was designed to address the following topics:

i) History of the Tax Credit Legislation
Knowing the history of legislation can often help identify critical information about how states move forward in developing new or existing IDA legislation for tax credits. Some of the questions raised in this context were: How did the effort start? Who started it? Who wrote the legislation? Who lobbied for the legislation?

ii) Administration and IDA Program Implementation
From legislation to program implementation, states have unique policy environments and IDA program strategies. This section provides information about the administering bodies in the four-targeted states, their responsibilities and mode of operation. This section also describes the main features and limitations of the IDA programs being implemented in the states.

iii) Marketing and Leveraging
Tax credit legislation may be passed in many states without plans for marketing the credits. This section describes how the states explain their successes and challenges with tax credits for IDAs. Issues examined include: Are the tax credits being leveraged? If not, what types of challenges are agencies facing?

Case Studies

Colorado

i) History of the Tax Credit Legislation

Colorado was one of the first states to propose IDA legislation. Legislation was proposed in 1991 and again in 1994, but did not pass either time. It is believed that the reason for early failures was because IDAs were a concept that conservative politicians did not accept. Efforts were put on hold for several years until 1998, when another attempt to pass legislation proved unsuccessful again. The biggest challenge to passing the bill was conservative legislators who viewed IDAs as another “handout” to the poor. However, following an extensive lobbying campaign for IDA legislation, House Bill 00-1361, the IDA Act, was signed into law on May 31, 2000.

The law appropriated five million dollars per year in tax credits for five years (2001-2005), for donor contributions to be used as matching funds for IDAs. The act provided donors a 25 percent state income tax credit for contributions to IDAs. During that same legislative session, a bill was introduced to modify the statutory provisions affecting the administration of state income tax returns. The modification was designed to make sure that the IDA tax credit was not deferrable. This means that if the amount of the tax credit exceeded the amount of the income tax the charitable donor otherwise owed that year, the excess amount of the credit could not be carried forward and so would be lost. In 2001, the sponsors returned to the legislature and were successful in getting a few administrative amendments passed that included an administration fee of 10 percent to be paid to the state administrator of the program.

Colorado IDA legislation is comprehensive, but the tax credit program is only available if there is a budget surplus. All tax credit bills that get through the legislature have, over the past 10 years, been subject to the same constraint. Unfortunately, the State no longer has a surplus as certified by the State Auditor. Without a surplus, there is no tax credit program.

Sponsorship for the bill was bipartisan and included a Senate sponsor who was the second highest-ranking member of a Republican Senate, and the solid support of the Democratic Speaker of the House. Legislative sponsorship of the bill was sought through paid lobbyists for the United Way who had developed quality relationships with the legislature over the years. The bill passed mostly as a result of the efforts of the paid lobbyists.

Interestingly, the strategy of the sponsors in passing the bill was to minimize the state’s role in administrating the IDA program. Therefore, the bill was purposely designed to have a non-profit organization develop rules and regulations and administer the program for the state. The sponsors believed that excessive rules and regulations would cause potential opponents to be more critical of the bill and, consequently, make passage of the bill less likely. They surmised that rules and regulations developed by a non-profit would be kept to a minimum. The idea was to sell the IDA concept and not a bill laden with rules and regulations.

ii) Administration and IDA Program Implementation To minimize the State's role in the program, the Department of Revenue (DOR), was the only state agency cited in the legislation. The DOR administers and establishes policy for tax credit programs in the State through a Request for Proposals (RFP) process. This process was used to select a non-profit agency to act as State Administrator for the IDA program. In January 2001, Mile High United Way (MHUW) was chosen to serve in that capacity. MHUW worked with the Colorado General Assembly and the Colorado DOR to develop administrative rules and regulations for the program. MHUW is the only non-profit agency in the state that has this designation.

MHUW manages three tax credit programs: (i) The Denver Enterprise Zone: a 25 percent income tax credit that benefits homeless people and low-income families by allowing them to participate in skilled job training. (ii) The Colorado Child Care Contribution Credit: a 50 percent income tax credit that supports a continuum of affordable and quality childcare for low-income families. (iii) IDA tax credits: a 25 percent income tax credit that supports IDAs.

The MHUW operates the IDA tax credit program in conjunction with its Savings Plus program that offers IDA accountholders a 3:1 match, or higher. The Savings Plus program is a collaborative IDA partnership between two local non-profits—Del Norte Neighborhood Development Corporation and Rocky Mountain Mutual Housing Association, Inc.

MHUW uses a decentralized approach for its IDA program. As the State Administrator, they are responsible for intake, fiscal management, administration, marketing and leveraging tax credits, and reporting to the DOR and the State Auditor. Through this collaborative effort, the non-profit community-based partner manages the outreach, recruitment, data collection, management and programming.

Specifically, MHUW receives referrals, does the intake and sets up both the individual's custodial and parallel reserve accounts. The accountholder is sent to the local non-profit partner for financial literacy training, budget and credit counseling, and asset specific classes. When the account holder reaches his/her savings goal, the non-profit partner provides MHUW with a withdrawal form. After verification a check is cut to the vendor for the asset purchase. MHUW withdraws the accountholder's money from his/her account and reimburses the agency that manages the program.

One major limitation of the legislation and program is that administrative funds are restricted to only 10 percent of the funds raised.

iii) Marketing and Leveraging

MHUW has a broad base of donors making marketing and leveraging tax credits an easier task than they might be for other organizations that do not have such a large group of contributors. MHUW has access to both individual and corporate donors for marketing the tax credits. Funds raised from the tax credits are put into a general pool for the parallel accounts, to be used as match dollars for IDAs.

During the first year of the IDA tax credit program, MHUW promulgated program rules and guidelines, and developed a targeted list of donors to market the tax credits to. With a late start in

2001, they managed to leverage only about $20,000. Before they could get the tax credit program off the ground, it was suspended indefinitely due to the state's fiscal shortfall. However, the Savings Plus Program is still operational, and seeks funds from other sources.

<u>Indiana</u>

i) History of the Tax Credit Legislation
In 1997, Indiana was the one of the first five states to pass IDA legislation. The IDA bill was sponsored by Representative John Day (Democrat). Representative Day's passion and vision for poor and low-income people was the impetus for promoting this bill. An educator, Representative Day was first introduced to IDAs when he attended a meeting at which Dr. Michael Sherraden was a guest speaker. Intrigued by the idea of a public policy tool that would help poor people get ahead economically, Representative Day moved forward with the idea and proposed IDA legislation in Indiana. The idea to include tax credits in Indiana's IDA legislation was borrowed from the state of Pennsylvania, whose NAP tax credit program allows funds leveraged to be used for IDAs. Originally, Indiana approved tax credits in the amount of $500,000 annually. However, all legislated state programs that receive state support in Indiana must go through an annual renewal process. The legislature reduced the tax credits to $200,000 during the 2001 renewal process.

It is important to note that in 1993, another organization in the state was paving the way for IDA policy, the Eastside Community Development Corporation (which later became New Eastside Community Credit Union in Indianapolis). This organization was selected as one of the first sites for the American Dream Policy Demonstration Project (ADD). This type of general IDA activity gave legislative advocates greater incentive to work for state legislation. Interestingly, Indiana is one of three states that housed an operational IDA program as early as 1993. In 1999, the state contributed over $1 million in general revenue funds annually for match and administration of a state IDA program. Meanwhile, federal legislation had enacted the Assets for Independence Act (AFIA), and any state that had allocated $1 million dollars or more to a state IDA program could be grandfathered into AFIA without having to apply. Consequently, Indiana received an AFIA award in addition to their state allocation for IDAs**.** Another critical piece for Indiana was the strong support of the Indiana Department of Commerce and Community Development (DCCD), which after the legislation passed, become the state administrator for the IDA program.

ii) Administration and IDA Program Implementation
The Indiana IDA program is managed and maintained by the DCCD, which manages other tax credit programs such as NAP and Low-Income Housing. DCCD did not create program rules, but did define policy for the program based on the legislation. Policy for the IDA program was carried out through the development of a program implementation handbook. Approved community development corporations (CDCs) and other community-based non-profits from around the state administer the program at the local level. DCCD currently manages the 47 sites within the state IDA program.

Eight hundred accounts are allocated each year until the state reaches a maximum of 3,200 accounts. The state program currently has 1,600 accounts. After capacity is reached, either more funding will have to be raised and/or the agencies will be allowed to enroll people only as current IDA accountholders reach their savings capacity, purchase an asset, and exit the program.

Requesting funding to support additional accounts requires an amendment to the legislation, which in the current economic crisis would likely not result in a positive outcome. This limitation of the process may eventually stagnate the program. Eight hundred accounts per year divided among 47 organizations limits the state program, though that number of accounts is more than what most states provide for. Because of the current funding situation, community based organizations (CBOs) in Indiana are challenged to secure additional private funding resources by utilizing the state tax credit program.

IDA programs may run for up to four years and CBOs are allowed to apply for up to $50,000 in state general revenue funds annually. Non-profit organizations as well as other participating organizations may apply to the IDA program through an “Application Round”, which requires a letter of intent. During the 2001-2002 fiscal year renewal process, the state allocated 800 accounts to be distributed among its organizations. These IDA accounts receive a 3:1 state match including the possibility of an additional three dollars from an AFIA grant. Accountholders’ participation in the IDA program is based on their savings performance, which is determined by the agency. Therefore, the accountholder can only receive the additional three-dollar match if approved. Each participant in this program is limited to an annual match of $300 from the state and a $300 annual match from the AFIA program.

The tax credit program allows each community based fiduciary organization to apply for up to $50,000 in tax credits. Each tax credit is worth 50 percent of each dollar donated. The tax credit program offers the same match rate as the grant funded program. Implementing organizations are allowed to use 20 percent of funds raised through tax credits for administration costs. Organizations can only leverage enough tax credits to meet the annual obligation match for the participant’s tax credit account ($300 per participant). Agencies are required to request enough tax credits (during the application and renewal process) to cover the participant’s account for the length of the program (years in the program).

iii. Coalition Efforts About 120 people, with support from the Indiana Association for Community Economic Development (IACED) have formed a working coalition group for IDAs. This organization has two primary goals: One is to create some statewide standards for housing education and counseling and to create a certification process for IDA programs. The second is to develop regional networks in the state to provide those services. Meetings are held regularly at the state capital, and in other parts of the state. The meetings that are best attended are those that are strategically planned in conjunction with other meetings at the Capitol. This working group is primarily made up of IDA practitioners and groups that assist people in homeownership education and counseling.

The working group has been instrumental in developing and supporting policy for IDAs. It is their belief that tax credits do two things. First, tax credits serve as a bargaining tool for raising funds; the state gives its support through the credits, and asks the organizations to raise money and support in their communities themselves. Second, tax credits precipitate the education of communities about IDAs by assisting businesses and corporations to understand that IDAs might be a financial tool that would be helpful to their own employees. Marketing and leveraging tax credits believed to be a way to mainstream IDAs into communities.

iv. Marketing and Leveraging

For CBOs in Indiana, securing the match money through the sale of the tax credits has proven challenging. During the 2001-2002 year, six organizations applied for tax credits, but only $23,763.00 of the tax credits were leveraged out of the $200,000 granted. However, the number of applications with letters of intent nearly doubled for the current fiscal year (2003); a total of 11 organizations applied to participate in the tax credit program. During the first quarter of 2003, a total of $32,100.00 tax credits were leveraged, which may mean that organizations are improving their leveraging plans. Republic Bank, a regional bank with branches in southern Indiana and parts of Kentucky received $15,000 in tax credits from a local Community Action Agency for contributions to the IDA program. One community based organization; LaCasa of Goshen, Indiana was able to leverage a significant amount of tax credits in 2001, and has leveraged $17,013 in the first quarter of the current fiscal year.[1]

Officials in the Department of Commerce (DOC) believe the increase in the use of tax credits has been largely due to the lower number of accounts allotted this year and the increased demand for accounts**.** The DOC attributes the successful, or less than successful, leveraging of tax credits mostly to the ability of the CBO's staff to market and manage the tax credit program. It is critical that organizations devote time to secure available funding because most organizations have waiting lists for new accounts. The DOC has assisted organizations in making marketing and leveraging tax credits a high priority. This has been one of the primary undertakings for the department in 2003.

As an example of successful leveraging strategies, LaCasa recently hired a development specialist to market the tax credits and help increase the number of IDA accounts they could offer. However, LaCasa is not new to tax credits; they currently use federal low-income housing tax credits and NAP tax credits. For LaCasa, having both NAP and IDA tax credits is seen as an opportunity to further their mission of affordable housing for low-income residents of Goshen, Indiana, and surrounding communities. The challenge, as for all groups trying to leverage tax credits, is in creating a donor base (donors that make repeat contributions to the agency). LaCasa has a small donor base, which they are attempting to increase by developing a comprehensive marketing strategy to leverage IDA tax credits. The use of mass mailings and phone calls will be the basis for developing a larger donor base. LaCasa is confident that they will be able to leverage their allotted amount of tax credits within the year.

[1] LaCasa is an organization that began in 1969 as the Spanish-American Committee (SAC) in response to a group of representatives from several churches, who wanted to assist migrant workers. In 1970, the churches in the community formed an organization called Man-to-Man to respond to the immediate needs of affordable housing. Later in 1974, the two organizations merged and formed LaCasa of Goshen.

<u>Missouri</u>

i) History of the Legislation

Legislative activities for IDAs (called Family Development Accounts or FDAs) in Missouri began in 1997. The Community Economic Development (CED) committee of the Missouri Association for Social Welfare (MASW) initiated and organized preparation and sponsorship of the bill and lobbying efforts.

MASW's mission is to advocate social welfare policy that benefits all Missourians. The CED committee serves as an informal trade association for IDAs and micro-enterprise development in the state.

CED members sought bi-partisan sponsorship for the first IDA bill knowing that passage would require support from both political parties. Graduate students from Washington University and other St. Louis universities lobbied for the bill for over two years. Additionally, the Missouri Department of Economic Development (DED) assisted by offering its expertise in developing and managing tax credit programs. With a proven track record in managing tax credit programs, DED was able to demonstrate how the FDA program could add strength to Missouri's existing economic development plan. During the two years before the bill passed, sponsorship changed twice but was still shared by both Democrats and Republicans. In 1999, IDA legislation passed, with an annual appropriation of four million dollars as 50 percent tax credits. Rules and regulations were written, and the FDA program was initiated in March 2000.

ii) Administration and IDA Program Implementation

DED became state administrator for the FDA program as designated in the legislation. DED was selected because of its experience with tax credits and relationship to the Department of Revenue (DOR). The original FDA statute provided for two full-time staff persons who would be responsible for the administration of the program. Due to state budget shortfalls, one full-time staff person administers the program.

DED is responsible for marketing the FDA program, processing the tax credit forms and applications, entering FDA program data and information from program sites into the state database, issuing the certificates of tax credits awarded to individuals and businesses, and reporting the related information to DOR. DED was also selected because the CED committee wanted the legislation to be viewed as an economic development program, rather than an anti-poverty program, as a means to build economic stability for families in Missouri. DED's experience in this area includes managing 31 of Missouri's 53 tax credit programs. DED staff receives applications and is responsible for issuing the donor receipts, with the assistance of DOR, for contributions to a community-based IDA organization. Organizations can apply individually or as umbrella organizations. An umbrella or individual organization can apply for up to $600,000 in tax credits over a one or two-year period. At the end of this period, an organization can reapply.

As mentioned earlier, some states are more aggressive than others in marketing and leveraging state tax credits. A possible reason for the large number of tax credits programs in Missouri may be that the Hancock Amendment, a state constitutional amendment passed in the 1980s, refunds excess state revenue to taxpayers while allowing only a limited amount of surplus tax dollars to be held in the state's coffers. Since tax credits are not part of that formula, they have become a way of maintaining social programs that benefit low-income citizens despite a potentially low tax base.

Any religious or charitable association that is formed pursuant to chapter 352 Revised Statutes of Missouri (RSMo) and that is approved by the director of the DED may apply to implement an FDA program. These non-profits must also have a 501(c)3 federal tax incorporation status. Although Missouri has a generous FDA tax credit program, most non-profits cannot apply because they do not have a 352 RSMo state incorporation status. The 352 RSMo status was cited in the legislation in error. This has proven to be a challenge for non-profit organizations in Missouri because most non-profits have a 355-incorporation status. It is believed that the 352 RSMo status, an archaic status, is almost 100 years old. To remedy the issue, DED is assisting organizations to obtain the 352 status. Additionally, DED created an umbrella state program application that would allow one organization to achieve the 352 status and then act as a conduit for other 355 organizations to participate. Obtaining a 352-incorporation status requires the development of an entirely new non-profit organization, with a board and other requirements, which could be costly to organizations with small budgets. DED has plans to host workshops for organizations that want to pursue a 352 incorporation status this coming year. The legislation may be amended at a later date.

iii) *Marketing and Leveraging*

Marketing the FDA program has been a challenge due to shrinking staff resulting from state fiscal shortfalls. However, DED has presented community forums and workshops in the eastern, central and western parts of the state. During these forums, panels of agencies that have had experience and success in leveraging tax credits share marketing strategies with attendees. As in Indiana, the most difficult aspect of leveraging tax credits is in creating a donor base. The panel members at these forums are able to share their methods for developing and maintaining donor bases. Each organization has its own style of approaching and maintaining donors. The tax credit forums have been publicized in state association and organization newsletters. DED staff is available for presentations at local and regional meetings and conferences. Information about the program can be found on the DED website address listed in Appendix IV.

To date, five non-profit organizations have applied for and are participating in the FDA tax credit program. In fiscal year 2001, $100,000 of the tax credits was leveraged and in fiscal year 2002, $57,000 was leveraged by state-approved FDA community based organizations.

Each FDA approved organization is responsible for marketing and leveraging its tax credits. This presents a challenge for organizations because their expertise lies in running social services programs rather than in development. The tax credits leveraged to date have mostly resulted from personal relationships of organizational members with donors. Most recently, through a combined effort of Justine Petersen Housing and Reinvestment Corporation (JPHRC), an approved state program, and the United Way of Greater St. Louis, a new FDA tax credit effort is ensuing. JPHRC will act as the administrator for a new FDA collaborative that hopes to serve 1000 accountholders from 20 member organizations. The United Way will serve as the fiduciary organization for the partnership and, as in a former IDA collaborative formed in 1999, will support the new program through their regular funding process. In concert with other funding, United Way will market and leverage $500,000 in state tax credits (the maximum amount granted by the state).

Oregon

i) History of the Legislation

Oregon covers a large geographic area with much of its population concentrated in the northwest section of the state. As a result, new ideas spread easily in the northwest area, which fosters the formation of partnerships and cooperative efforts across community development and social support systems. These factors were significant for passing Oregon's IDA legislation.

In the early 1990s, Oregon passed its first IDA-related asset-building policy. Under the championship of then state legislator Beverly Stein (Democrat), the Oregon Legislature passed a children's individual development account bill (CDAs, similar to IDAs, but for children only). The legislation passed, but no staff or funding was appropriated to implement the program, though it remains part of the state statutes.

After the passage of the CDA bill, interest in asset building strategies continued to grow in Oregon. The first children's IDA program was initiated by now Representative Jeffrey Merkley (Democrat) at a non-profit organization called Human Solutions. Another non-profit created an IDA program that targeted teens. Neither program received state funding. David Foster, a policy analyst with Oregon Housing and Community Services, wrote an award winning concept paper in the mid 1990's for IDA–like lifelong accounts for enterprise investment and retirement purposes. Senator Jeanette Hamby (Republican), who followed these policy developments closely, introduced legislation for an Oregon IDA initiative in 1997. The legislation did not pass, mostly because it lacked sufficient political momentum. During this time, the Enterprise Foundation (EF), a private organization, made a commitment to cultivate asset-building strategies nationally, and targeted Oregon as a likely place to begin these efforts.

The EF's Portland regional office immediately committed staff to create networks of IDA providers across Oregon, and to initiate and support asset-building policy strategies. By 1998, through the efforts of the EF, almost a dozen organizations were either providing or planning to implement an IDA program using private and foundation funds.

Late in 1998, Dave McConnell of the EF convened a lunch meeting of elected officials, government representatives, non-profit leaders, and business leaders, at which Beverly Stein was the guest speaker. Ms. Stein spoke about the importance of a human investment strategy, which included IDAs, and how it would benefit low-income people. Bob Friedman from the Corporation for Enterprise Development also attended the meeting, where he was able to share his knowledge about the growing asset-building movement across the country. The director of Oregon Housing and Community Services (OHCS), Bob Repine, spoke about how IDAs reinforced the departments and the state's anti-poverty focus.

The participants at this introductory meeting agreed that they wanted to continue supporting and expanding support of asset building strategies throughout Oregon. The next step would be to establish policy to support IDAs and identify a sustainable funding source. Traditional types of funding sources to support initiatives of this sort were not sustainable, especially when the state was experiencing an economic downturn (after ten years of economic prosperity), and the political climate in Oregon was such that asking for an appropriation of any kind would create the impression that IDAs were just another welfare program and not an economic strategy for asset-building for low-income people. To avoid that perception, various options were considered, including the use of state tax credits. From a political standpoint, it was surmised that both Republicans and Democrats would accept the idea. Republicans would support the use of tax credits because the funding would not come from the state's budget; Democrats would support tax credits because they would lead to the implementation of IDAs, which would assist low-income people in building assets.

Beverly Stein, Bob Repine, and Rob Bole (of the EF), further developed the ideas put forth at that meeting, and created an ad hoc committee to continue this work. By combining resources, they were able to begin the momentum needed to set IDA legislation in motion.

To keep costs low, the original legislation requested only a 25 percent tax credit. This would give the IDA program the potential of raising $2 million in contributions, while representing only a $500,000 loss of revenue to the state. Two months later, legislation was drafted. Within four months, House Bill 3600, creating an IDA program funded by state tax credits, passed with few concessions. The final tally showed that every member of the Oregon legislature, except one, favored starting an IDA initiative in Oregon.

The governor designated OHCS as the lead administrative agency for the IDA initiative. The legislation did not provide funding for staff or management of the program. It loosely referred to revenue gained from the tax credits to be used for program administration. It was several months before funds would be available to begin the program. Even though the bill took effect in the fall of 1999, revenues could not be raised for the program until tax year 2000. In the interim, the OHCS director allocated a small amount of reserve funding to get the program started. The EF was chosen as the non-profit program administrator through a bidding process. The EF was responsible for developing the program and material for implementation, as well as preparing informational material for marketing the tax credits to contributors. The foundation worked hard to market the program, but quickly realized that 25 percent tax credits were not as attractive to potential contributions as hoped for. Having made considerable efforts to leverage the tax credits to prospective contributors, the EF admitted that the initiative was stalled due to the lack of funds raised.

By the 2000 legislative session, the EF, with support and assistance from local IDA networks, focused on amending the law to allow a larger tax credit (75 percent) at a maximum of $500,000 loss of revenue for the state (the same as existed). This would generate at least $666,000 for the Oregon IDA initiative to get started.

In addition to the percentage increase in tax credits, two other legislative changes were included in this amendment. The second addition was the inclusion of Oregon's nine federally recognized American Indian tribes as being able to qualify as fiduciary organizations for the IDA initiative (the original bill language required fiduciary organizations to be non-profit 501(c)3 organizations, and tribes do not have that federal incorporation status). The third addition was inspired by the State Treasurer, and allowed for dollars remaining after an asset purchase to be rolled over into a state 529-college savings plan. This amendment was drafted by the key sponsors of the original house bill and passed in the 2001 legislature.

The organizers of this legislation were successful in finding bipartisan sponsorship, which represented both rural and urban areas, and provided the dynamics in the legislature that enabled the idea to cross party lines and become law. The bill sponsors agreed that the goal of creating an IDA program was to also create a larger institutional framework to better root the issue of asset equity in people's lives. The EF played a key role in facilitating, lobbying and organizing the entire process.

ii) Administration, Program and Marketing
Even though key staff from the EF served as the major catalyst in facilitating, lobbying and organizing the process of IDA legislation and program development, the lead staff person who championed this effort left the EF for other work opportunities in 2001. A major void was left in the program and, without a new person to step in quickly, the program stalled. The EF then appointed another staff person to the project, who hired a consultant to pick up on creating a framework for the program in early 2002. However, the EF began reconsidering its commitment to several national initiatives that it had supported in recent years. The foundation decided to focus more on housing related projects and less on IDAs. Fortunately, the previous work of the consultant and director of EF, as well as strong dedication by both the OHCS staff person, the Vice President of EF, and several local program providers and other non-profit leaders, created a basis from which to revive the Oregon IDA initiative.

OHCS filled the role of non-profit administrator for the IDA program with the Neighborhood Partnership Fund (NPF). NPF is a Portland-based statewide community development non-profit organization.

Keeping enthusiasm and momentum high with partnering organizations was another challenge for Oregon statewide IDA program administrators. OHCS has worked very hard behind the scenes to maintain program momentum. Numerous statewide meetings were facilitated and organized by OHCS staff. Temporary rules and regulations were promulgated. In addition to developing and adopting rules for the IDA program, OHCS established a process for selecting local fiduciary organizations, and a request for applications (RFA) for the program, in October 2002. By early November 2002, five organizations were selected to participate in the statewide IDA program. Additionally, four of the five IDA organizations were implementing IDA programs in conjunction with over two dozen partnering organizations across the state.

Currently, the Oregon statewide IDA program covers a geographic service area that includes more than three-quarters of Oregon's population. However, of the five large community development agencies selected as fiduciary organizations, none are Indian Tribes; the legislation was amended in 2001 for the inclusion of tribes to apply for funding as fiduciary organizations but the temporary administrative rules present several barriers that preclude tribes from participating in the state program. Current administrative rules do not address essential tribal issues such as sovereignty, land trust and housing. Therefore, tribes are rendered unable to submit an application to become a fiduciary organization for the IDA program. This is a tremendous setback for the nine federally recognized tribes in Oregon. The permanent administrative rules have not yet been submitted, and the tribes are hopeful that their issues will be addressed, or a separate set of administrative rules will be established so that they can fully participate and apply for funding for the state IDA program.

There is still much work to be done to develop the IDA program in Oregon, including adopting permanent administrative rules. Also, Oregon, as other states, has a serious budget shortfall, and it is possible that the current legislature may present another challenge by reducing or eliminating the IDA tax credit program. Conversely, those still leading the initiative continue to persevere and have dedicated 2003 to be the year to take the Oregon IDA statewide initiative to full capacity. Their intent is to have all programmatic and administrative systems operational and ready for a full-state deployment in 2004.

iii Marketing and Leveraging

In spring 2002, EF subcontracted with an organization called the Celilo Group, a local consulting firm, to market and leverage the tax credits. The Celilo Group successfully leveraged all of the tax credits in less than two months (by December 2002), giving the program the total amount of funding possible, $666,000, for that fiscal year. They accomplished this by using ties in the corporate community, and writing an article in a Portland newspaper. By the end of January 2003, the Celilo Group had already leveraged a $100,000 contribution by a potential contributor. However, the Celilo had also lost a $100,000 contribution because marketing materials prepared for the initiative contained errors. It is important to point out that many marketing materials oversimplify how tax credits can benefit contributors, which create misunderstandings and refunds of contributions raised. There are many tiers of tax regulations to be considered, and it is important to understand the donor tax type and situation. It is generally thought to be imperative that tax advisors be consulted early on in fundraising efforts using tax credits.

Summary of Case Studies

Tax credits are the only source of state funding for IDA programs in Oregon, Missouri, and Colorado. Indiana has multiple sources and uses state general funds, federal funds and tax credits to support its statewide IDA program. IDA programs in Colorado may utilize tax credits, but issuance of the credits depends on state revenue surplus without which IDA programs are forced to rely on other public and private funding sources for operation. (Other states not included in this study have additional resources that provide funding for IDA programs. In most instances, the bulk of financial support comes from Temporary Assistance for Needy Families (TANF) dollars). Each state began its IDA legislative process with strong support from either a single legislator or a policy advocacy group that had experience in supporting social development legislation. In all cases, the advocacy group and legislators joined forces, at some point, to better promote efforts to develop and pass IDA legislation. The legislative process in these states, on average, took about two years to pass. The common denominator for advocating IDA legislation, in all four states, was the ownership and support for the concept of helping low-income people build assets.

A legislatively designated department, within the state, administers the IDA tax credit program in most instances. The designated department promulgates the rules and regulations for the program and often provides technical support to agencies that are awarded tax credits. Decreases in additional funding sources for IDA programs have caused state departments to play a more prominent role in assisting CBOs in marketing and leveraging tax credits. In all cases, states developed a formal process with the Department of Revenue to make sure that taxpayers receive the appropriate tax credit documentation for their contributions to IDA programs.

All states interviewed are convinced that tax credits are pivotal in the overall funding plans for IDA programs. There are challenges to implementing a tax credit program, but all states agree that with some effort the challenges can be overcome. Colorado is the only state whose tax credit program solely depends on a state surplus to remain active. Until recently, most of these states were able to sustain existing IDA programs with the use of state, federal, and private funding streams. With economic downturns and budget shortfalls, states are even more determined to address the challenges of marketing and selling IDA tax credits.

Common Benefits to the Effective Use of Tax Credits

Charitable Incentives

One of the main benefits of tax credits is that donors gain the ability to direct how their tax dollars are used. Traditional charitable giving does not allow the giver this privilege.

Innovative Strategies

Most organizations have a single donor base from which to work (which is often small), making it difficult for them to leverage tax credits (donors may not want to increase funding levels). In Missouri, non-profit organizations have used tax credits to reward or increase the incentive for individuals and corporations that have previously supported the organizations. If a corporation gives $500,000 annually as a donation to a particular project, and half of that amount is used to leverage 50 percent tax credits, then the organization would be able to write off a substantial amount from their state tax liability, affording the opportunity to increase their contribution to cover the savings as they proportionately reduce their state tax liability.

Marketing Benefits

Tax credits offer the most tax benefits to individuals and corporations in high tax brackets. For example, if a person donates money to a 501(c)3 organization with tax credits to leverage (like the NAP in Missouri, which awards a 70 percent tax credit), the donor can also claim a federal charitable contribution deduction and a state charitable deduction (35 percent and 6 percent respectively) in addition to the available tax credits. This means that a donor in Missouri might actually net 11 percent of the contribution. Even when the tax credits are as low as 25 percent, as in Colorado, a business could recoup 66 percent of its donation while generating positive press, fulfilling corporate contribution goals, and potentially building a local customer base.

The table below is an example of the cost of a donation for a Missouri taxpayer taking advantage of an IDA tax credit. The table may represent a typical contribution from a donor, however, it is suggested that all donors contact a tax advisor for more information.

Sample Missouri Tax Credit Donation	
Initial Donation	$5000
Less 50% State Tax Credit	2500
Less Federal Contribution (Based on a 28% tax bracket)	1400
Less State Deduction (Based on 6.5% deduction)	250
Cost of Donation for the Taxpayer	$850

Common Barriers to the Effective Use of Tax Credits for IDAs

Insufficient Incentives

Our research revealed that a challenge to leveraging tax credits for IDAs sometimes originates in the structure of the credits themselves. In some instances, the tax credit amount is set very low (notably Connecticut, with five percent) or includes an annual cap on credits allowed, which limits the extent to which corporations are enticed to contribute funds. In all four states interviewed, tax credits may only be used to reduce the corporation or individual's own tax liability in the year they are granted (although, in some states, tax credits can be transferred to others and carried over to future years). Given the low levels of tax liability owed by many corporations, due to other tax incentive attempts to lure industry to states, these non-transferable tax credits are of little value to the very companies who would have the most to contribute. This is already impacting Maryland's ability to make use of a variety of social investment tax credits. The fact that few corporations in Maryland owe substantial taxes makes it difficult for organizations to provide incentives for corporate contributors.

Excessive Competition

Competition is a huge factor in states where there are many tax credit programs available. In 2002, Missouri had 53 types of tax credit programs available. Organizations have a difficult time enticing corporations to contribute to a wide variety of community development efforts. Many small nonprofits have a hard time establishing funding relationships with the same corporations that larger non-profits organizations target for tax credit leveraging.

The percentage of a tax credit can affect leveraging as well. A 70 percent tax credit is generally easier to leverage than a 25 percent credit. Total state appropriations for community development tax credits vary widely, from $100,000 per year for IDA credits in Arkansas to a proposed $18 million per year in Pennsylvania for NAP credits. The state with the largest IDA credit appropriation is Colorado, with an annual $5 million cap on total credits for the next five years (or $25 million). Given Colorado's 25 percent credit, the state will have to raise $12.5 million per year in contributions to utilize the entire allocation. Missouri's IDA credit may be the best deal in the long run; the state has $4 million per year without a time limit or overall cap. Interestingly, the total amount of tax credits appropriated by states is often larger than the amount leveraged. The experiences of some states suggest that it may be better to start with a small appropriation, so that large sums of state revenue money are not viewed by legislators as being "locked up" if tax credit leveraging has not been very successful.

Marketing Problems

A factor that could potentially influence the leveraging of tax credits is the current federal administration's tax relief package. This factor may negatively affect state tax credit programs because fewer federal dollars will be available to support education, social services and other services for taxpayers. There is speculation that states will be forced to raise state taxes and reduce the number of tax credit programs if this type of "crunch" occurs. An additional concern is that the current administration's tax relief package incorporates so many tax cuts for corporations and financial institutions, that these corporations will not need additional state or federal tax credits to offset tax liabilities.

As mentioned earlier, many states are experiencing difficulties leveraging the full amount of tax credits appropriated. Some non-profit organizations stated that it is easier to apply for foundation grants or lobby the legislature for TANF dollars, than to build the relationships with corporations and wealthy individuals needed to successfully leverage tax credits. Many organizations administering IDA programs are used to working with social service agencies and low-income families, not CEOs of large companies or wealthy individuals. They need additional training in how to leverage tax credits, and build relationships with those who can best benefit from the tax credit program. A one-time statewide marketing push, complete with a consultation with professionals in the tax field, may be well worth the investment in the long-term for the state, or private funders. Collaboration with other agencies is key here, but it is also important that the organizations have a clear idea of a productive marketing strategy, and be able to articulate and implement it.

Strategies for Tax Credit Promotion

Targeted Marketing Plan

Few states have implemented a comprehensive strategy to inform potential investors about tax credits, and elicit their participation. Missouri and Arkansas are both preparing more extensive marketing campaigns to increase the leveraging power of non-profits with state tax credits after disappointing showings in 2000. Oregon has begun to send packets of information to interested donors (identified by the management group hired to leverage the state tax credits) explaining IDA programs and how they benefit the state, including all paperwork needed to claim the credit. In Indiana, an agency has hired a full-time staff person dedicated to community education for marketing tax credits. Some states are targeting employers whose employees could benefit from IDA participation (grocery stores, banks, large manufacturing companies). The state is into cooperative arrangements with employers who target their employees as IDA participants, as a way of connecting financial support of IDAs to the corporation's interests. Such agreements must be cautiously constructed, however, as deductions for charitable contributions cannot be given in exchange for services received, even those rendered indirectly.

Aggressive outreach strategies such as networking with financial planners, direct mailings to corporations, and presence at industry initiated events are needed to increase tax credit leveraging on a larger scale. It is likely that organizations will have to spend more time targeting wealthy individuals, to be successful with IDA tax credits in the future. This could be difficult, however, since some tax credits are only applicable to corporations. Also, organizations have less experience dealing directly with individual funders. When working with corporations, efforts should be made to choose corporations whose potential clients and board members also have connections that might help in leveraging additional tax credits. Targeted marketing also means that organizations will have to make potentially difficult decisions about which tax credit to market at which time. Combining forces between organizations and corporations can be an asset in effective leveraging since giving corporations too many potential tax credit choices may dilute the impact of IDA credits and compromise the effort.

Staff Expertise

Staff expertise in the following areas may be essential for non-profits to successfully leverage tax credits: (i) knowledge of the available tax credits, (ii) the ability to explain how tax credits work to potential contributors, (iii) fundraising skills, since many small non-profits do not have staff who are qualified to fundraise and may, therefore, have to collaborate with larger organizations that have fundraising and/or marketing staff (e.g. United Way, foundations etc.) to build connections with prospective donors, tax preparers, and financial planners for better leveraging of tax credits.

Viability of Tax Credits to Fund Individual Development Account Programs

Finally, are tax credits a viable resource for IDAs? Based on information gathered to date, the answer to the question is a qualified yes. The use of state tax credits can help widen the base of interest for IDAs. As more individuals and corporations are aware of the potential of IDAs and how they work, support will likely increase and diversify. This is essential in sustaining IDA programs, especially since many pilot programs are expiring and must be reauthorized.

Some strategies that may promote the wider use of tax credits for IDA programs include targeted marketing plans, increasing staff expertise, and focusing on types of tax credits that offer the greatest incentives to those who stand to gain the most benefit from using tax credits.

A sound administrative infrastructure is needed to leverage IDA tax credits appropriated through legislation. To create, manage, and operate an IDA program funded by tax credits requires that both state departments and administrating organizations be able to successfully market and leverage tax credits. It is important that state departments managing the IDA programs establish and promote viable strategies to implement the program.

In conclusion, if tax credit programs are coupled with other funding streams and enjoy strong state involvement; are utilized by groups or organizations that are skilled at marketing and leveraging tax credits; and are benefited by stable, on-going, program administration, there is a credible chance for successful utilization. However, without these factors in place (and without collaborative, organized, community-based marketing efforts) tax credits may not fulfill their potential as an effective funding tool for IDAs.

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Appendix I

IDA Tax Credit Interview Questions

Policy

1. What makes a good policy environment for tax credits?
2. Why has this state been so agreeable to tax credits?
3. Why does your organization have an interest in tax credits?
4. What are the advantages of tax credits? What are the disadvantages of tax credits?
5. How did you get started? Give me the history and background of how your organization got involved.
6. Who else was involved in the effort of IDA tax credit?
7. What where the challenges?
8. How likely are you to get tax credits today?
9. What is the difference between today vs. the time that you sought tax credits?
10. What is your vision for tax credits?
11. Of the tax credits programs that you have which do you favor and why?
12. Was your organization involved in the legislative aspect of the tax credit legislation?

Legislation

1. What types of things must you know about your state before you begin promoting legislation for tax credits? For example: state budget, other tax credits program, political climate, etc.
2. Describe the history of the bill. Who started this whole thing? Please site all organizations and anybody involved in the early writing of the bill.
3. Was sponsorship bi-partisan? If so, why did that work? If not, why?
4. What went well during this process?
5. What went wrong?
6. What strategies were used to get the bill introduced, passed?
7. How long did the entire process take from inception to an actual bill?
8. Your legislation has been amended, can you tell me the reason(s) why the legislation was amended?
9. Is it wise to rock the boat once legislation is set?
10. What happened after the original legislation was passed?
11. If given the opportunity to do this process over again, what would you do differently?
12. If you could change the legislation, what would you do and why?
13. Was private school vouchers ever included in the original legislation? If so how was it taken out? How big of a threat was it?
14. What type of political climate is needed to evoke changes in existing legislation?
15. Does the current legislation look anything like the original proposed legislation?
16. How and who decided on the amount of the credit?
17. What were some of the concessions made in the legislation so that it would pass?
18. Is this a demonstration act or just time-limited?
19. If it is a demonstration, is it your goal to remove the demonstration language?
20. If time-limited, what are your plans for the future?

Tax Credit Vulnerability

1. With that said, please give me more details on that process.
2. How well does this process work?
3. Is this a standard process?
4. How vulnerable are tax credits in your state?
5. If approved or rejected, what exactly does that mean?
6. Is this the only legislative body that can take away or reduce the tax credits?
7. If this happens, what would be your defense strategy or what suggestions would you use or give to anybody whose tax credits program were in danger of being cut or taken away?

Leveraging

1. Does your organization help to leverage the tax credits? If so, how?
2. Is it working?
3. How much has been leveraged?
4. Do you think you will use all the tax credits?
5. What happens if they are not used?
6. Do you have alternate funding sources if tax credits are not being leveraged?
7. Are the credits in jeopardy if not used?
8. Does the state take back the credits?
9. Do you ever find people that are resistant to tax credits because they believe that the state needs the revenue? If so, what are your arguments on this point?

Transferability

1. Are the tax credits transferable?
2. If so, how does it work?
3. What are the advantages and disadvantages of transferable tax credits?

Program Questions for State Administrator

1. After legislation was passed, what happened next? For example: Rules and regulations
2. As the state administrator, what does that entail? Explain the infrastructure.
3. As the state administrator for three programs, what would you say are the necessary characteristics that any agency would need to manage a tax credit program?
4. How many staff is assigned to manage the tax credit programs?
5. Do they manage all of the reporting and manage the database, etc.?
6. Do you have a team that leverages money? Or is each community organization responsible for their leveraging strategies?
7. How does the leveraging work?
8. Who manages the leveraging?
9. Do participating agencies market the tax credit program?
10. Can IDA account holders receive tax credit?
11. Are the tax credits refundable?
12. Who developed the rules and regulations for the program? Are they on line?

13. What was the approval process by the state?
14. Does the state like loose rules or do the like everything spelled out? What is your preference and why?
15. What can you tell me about incentive tax specialists?
16. Are they useful?
17. What makes a good tax specialist?
18. What are the dangers in using incentive tax specialists?
19. Do you allow both charitable contributions and tax credits as deductions from taxes?

<u>Agency</u>

1. Tell me a little about your agency and its mission?
2. What are your other funding sources?
3. How long have you been funded or affiliated with the United Way?
4. Which tax credit program are you using?
5. What percentage of your budget comes from tax credits?
6. Tell me how it works.
7. Do you have a dedicated staff for tax credits?
8. What are the advantages and disadvantages of tax credit programs?
9. Are you responsible for marketing the program or does the United Way help?
10. Who leverages the money?
11. What do you consider as a successful donation?
12. What methods do you use to go back to donors for more donations?

<u>Marketing Tax Credits</u>

1. Did you create your own campaign or tap into someone else's?
2. Is it difficult to maintain staff?

Appendix II

Selected Examples of Tax Credit Programs (Utilized by States)

<u>Business Incentives</u>

- Expansion credits for businesses that locate in certain areas, like Enterprise Zones (many states using these)
- Public investment credits for those purchasing certain stocks or bonds (AR, TN)
- Investment in Minority-owned Business Credit (MI)
- Industrial Development Credit (MO)
- High Impact Business Credit (IL)
- Credits for purchase of industrial machinery (TN)
- Venture Capital Investment Credit (many states using)
- Corporate Headquarters Credit (TN, SC, MS, WV)
- Small Business Credit (MI, OK, MD)
- Urban Relocation Costs Credit (NY)
- New Jobs Credit (IA, OH, GA, IN, OK, MD, SC)
- Credits for Expansion in Specific Industries (many states using)

<u>Research and Development</u>

- Research and Development Credit (many states using)
- High-Technology Investment Tax Credit (ME)

<u>Charitable Giving</u>

- Enterprise Zone giving (CO)
- School equipment (IN)
- Scholarship Fund donations (IN)
- Mortgage Assistance Fund donations (MI)
- General Charitable Contributions credit (MI, PA)
- Housing Program Contribution Credit (CT)
- Giving to Private Schools Credit (ND, ID)
- Contributions to Nonprofit Youth and Rehabilitation Facilities (ID)
- Contributions to Sheltered Workshops (UT)
- Credit for Real Property Donations (NC)

<u>Training and Job Placement</u>

- Point of Hire credits (PA, AZ, MD. RI)
- Biotechnology Development and Training Credit (AR)
- Prison Inmate Labor Credit (CA)
- Welfare-To-Work Tax Credit (NM)
- Credit for Wages Paid to TANF Families (MS, VA)
- Hiring the Disabled or Mentally Ill Credit (ND, UT, NY, MD)
- Training/Retraining Credit (MS, FL, NC, GA, VA, MD)
- Credit for Summer Employment of Teachers (IN)

<u>Poverty Alleviation</u>

- State Earned Income Tax Credits (MN, NJ, CO, IL, IA, KS, ME, MD, MA, NY, OR, RI, VT, WI)

<u>Energy</u>

- Wood Energy Producers Tax Credit (MO)
- Clean Alternative Fuel Credits (CT, WV, UT, NY, GA, AZ, MD, MT)
- Gasoline Tax Credit (TN)
- Highway User Fuel Tax Credit (TN)
- Investment in Energy Conservation Credit (CT)
- Petroleum Environmental Protection Charge Credit (IA)
- Geothermal, Solar, or Wind Energy Credit (ND, NC)

Environmental Remediation

- Waste Reduction, Reuse, or Recycling Credit (AR)
- Equipment Using Post-consumer Waste Credit (ID)
- Water Conservation Credit (AR, GA, AZ)
- Environmental Remediation Tax Credit (IL)
- Tire Recycling Credit (TN, PA)
- Pollution Control Credit (TN, OR)
- Hazardous Waste Control Credit (OK)
- Reclaimed Plastic Products (OR)
- Litter Tax Credit (OH)
- Ground-Water Usage Credit (GA)
- Brownfield Cleanup (OH, FL)
- Recycling Equipment Credit (AZ, MT)
- Threatened Wildlife Habitat Credit (KS)

Community Development

- Neighborhood Assistance Act
- Housing Credits
- IDA Credits
- Community Development Investment Credit (CA)
- Farm worker Housing Credit (CA)
- Cultural/Historic Property Restoration Credit (NM, UT, NC, IN, VA, MD, MT)
- Investment in Nonprofit Development Corporations (ND)
- Urban High-Crime Credit (FL)
- Rural Area Job Investment Credit (FL, MN)

Social Services

- Community-Based Alcoholism Prevention or Treatment Program Credit (CT)
- Daycare Credits (ME, CT, NM, OH, FL, GA, KS, MD)
- Juvenile Restitution Credit (MD)
- Adult Education Credit (MD)

Miscellaneous

- Traffic Reduction Program Credit (CT, MA)
- Credit for Transporting Donated Agriculture (CA)
- Employer-Provided Long-Term Care Benefits Credit (ME)
- Employer-Sponsored Health Insurance Credit (IA, KS)
- Credit for Reduced Telephone Utility Rates (WV)

Appendix III

People Interviewed for Case Studies

Oregon
Alisa Larson, Consultant, Warm Springs Tribal IDA Program
David Foster, Policy Strategist, Oregon Housing and Community Services
Tracy Lehto, Housing Specialist, City of Portland
Mike Andrews, Enterprise Foundation
Jeff Merkley, State Representative
Dave McConnell, One-Economy
Bonnie Anderson, CASA
Carol Coren, Mercy Corps
Rob Bole, One-Economy

Missouri
Dianna Moore, Director, Department of Economic Development, State of Missouri
Karen Henry, Coordinator, DED, State of Missouri
Colleen Conrad, CPA, RBG & Company
Zachary M. Boyer, Vice President, US Bank

Colorado
Barbara Callison, Manager of Grants Compliance, Mile High United Way
Chuck Shannon, Vice President, Mile High United Way

Indiana
Robin Shackleford, Program Coordinator, Community Development Division, Indiana Department of Commerce
Leigh Tivol., Indiana Association for Community Economic Development
Susan S. Harmless, Director, Community Development Division, Department of Commerce
John Day, Indiana State Representative
San Moreno, IDA Coordinator, LaCasa of Goshen, Incorporated
Karen Stoltzfus, Director of Development, LaCasa of Goshen, Incorporated

Appendix IV

IDA Tax Credit Legislation Website Links

State	Name of State Program	Tax Credit Legislative Web Link
AR	Family Savings Initiative	http://www.arkleg.state.ar.us/ftproot/acts/1999/htm/act1217.htm
CO	Individual Development Account Program	http://www.state.co.us/gov_dir/leg_dir/olls/sl2000/sl.306.htm
CT	Connecticut Individual Development Account Initiative	http://www.cga.state.ct.us/2000/cbs/H/HB-5922.htm Click on Public Act Number 00-192
HI	Hawaii Individual Development Account	http://www.capitol.hawaii.gov/session1999/bills/sb646_cd1_.htm Page 52 of the legislation
IN	Indiana Individual Development Account Program	http://www.in.gov/legislative/bills/1997/he/he1425.1.html
KS	Kansas Assistive Technology IDA Tax Credit Program	http://www.accesskansas.org/legislative/signed-enrolledbills/index.cgi/2001/senate/45.pdf
ME	Family Development Account (FDA) Program	http://janus.state.me.us/legis/statutes/36/title36sec5216-c.html
MO	Missouri Family Development Account (FDA) Legislation Missouri Family Development Account Program	http://www.senate.state.mo.us/99info/billtext/tat/SB387.htm http://www.ded.state.mo.us/communities/communitydevelopment/fda/
OR	Oregon Legislation Oregon Individual Development Account IDA Program Oregon IDA Tax Credit Website The Neighborhood Partnership Fund	http://www.leg.state.or.us/01reg/measures/hb3300.dir/hb3391.en.html http://www.hcs.state.or.us/ida.html http://www.oregontaxcredits.com/ida/index.asp
PA	Family Saving Account Program Neighborhood Assistance Program (NAP)	http://www.inventpa.com/default.aspx?id=180 http://www.inventpa.com/default.aspx?id=333

Addendum

Descriptions of Selected Tax Credits

The following is a select list with descriptions of tax credits used for community and economic development purposes.

1) Historic Preservation

These tax credits provide incentives to rehabilitate non-income and income-producing historic properties, sometimes as a complement to the federal investment tax credit. They are limited to certified historic structures or registered historic districts. Expenses must be "substantial" and certified by the state department before initiation. Qualified expenses include construction interest and taxes, architectural and engineering fees, legal and professional fees, and general rehabilitative costs. In most cases, the owner must retain the building for at least five years after claiming the credit to avoid full or partial recapture. These credits can entice individuals and corporations to invest in urban historic districts, sometimes leading to downtown revitalization and protection of valuable community space.

2) Job Development

They are one of the most popular types of tax credits to reward corporations willing to locate in targeted disadvantaged areas that are characterized by declining property values, corporate closings, high unemployment, declining population, and below-median incomes. In some states, these are called "State Enterprise Zones" and mirror, but operate independently of "Federal Enterprise Zones". For example, in Florida, 13 urban areas are designated for the Urban Job Tax Credit Program. New and existing businesses in these areas receive state sales, income, and/or property tax relief to encourage expansion and maintenance of employment opportunities. Businesses in Florida and California among other states also receive a credit for each job created with bonuses for employing underprivileged individuals. In some states, businesses may receive flat tax credits for locating in certain areas. Most states have caps on the amount of credits per zone and total caps for "zone" programs. In Wisconsin, for example, "development zones" offer special tax credits ($3 million per zone) for new full-time jobs created, with the amount increasing for employing dislocated workers, public assistance recipients, Vietnam veterans, and low-income youth. This program attempts to direct the kinds of jobs created and requires that employers pay above 150 percent of the federal minimum wage, offer regular and non-seasonal employment, and provide benefits to employees.

3) Neighborhood Assistance Program (NAP)

Many states (Missouri, Pennsylvania, Connecticut, Delaware, Florida, Illinois, Indiana, Kansas, Maryland, Nebraska, Virginia, and West Virginia) use NAP credits to stimulate development in targeted urban and rural areas. Additional states, such as New York, are investigating such tax credits. Projects that have been awarded these credits include IDA programs, child care agencies, housing assistance and rehabilitation efforts, medical and dental services, capital improvements within State Enterprise Zones, emergency shelters and food banks, business start-up and job training/education. NAP credits are awarded to nonprofits, worker cooperatives, and some municipalities, based on project proposals and a successful history of leveraging credits. In Pennsylvania, NAP credits are 50 percent with a $250,000 annual cap per contributor, but in both

Missouri and Pennsylvania, “priority” areas (such as highly disadvantaged rural areas) are eligible for credits up to 70 percent. Some states have developed or are considering similar tax credits, packaged under names like “Neighborhood Preservation and Revitalization Tax Credit” (New Jersey) or “Community Revitalization/Community Investment” (several states). In New Hampshire, corporations can contribute both monetary and in-kind donations to community development projects and receive a 75 percent credit for the value of the donation. Some states provide marketing and technical assistance centrally for leveraging these tax credits, to make it easier for organizations to leverage the funds. As with most credits, states and organizations with experience in previous tax credit leveraging a higher level have success with NAP credits.