

## Overview of the Neighborhood Assistance Act Program

The Neighborhood Assistance Act (NAA) of 1999 and revised in 2007 by Senate Bill 169 encourages businesses, firms and individuals paying Delaware income tax to invest in programs serving impoverished neighborhoods and communities or that assist low- and moderate-income families. The NAA is administered by the Delaware State Housing Authority (DSHA) in accordance with Title 30, Chapter 20 of the State Code.

Individuals and businesses paying Delaware income taxes can use the NAA Program to provide valuable assistance to low- and moderate-income communities, while reducing their tax liability. If a business or individual provides qualified services or products to a non-profit neighborhood organization that assists low- and moderate-income families, or contributes money to a neighborhood organization that provides qualified services, the taxpayer may be eligible for a tax credit. The NAA tax credit equals 50% of the qualified investment or contribution up to a maximum eligible contribution of \$200,000 annually per taxpayer, resulting in a maximum annual tax credit of \$100,000 per taxpayer. The minimum contribution by an individual or family is \$5,000 for a tax credit of \$2,500 and the minimum contribution by a business is \$10,000 for a tax credit of \$5,000.

Total tax credits available for the State Fiscal Year are \$500,000.

### Neighborhood Assistance Act Flow Chart



## ***Qualified Taxpayers***

The NAA Tax Credit is available to any individual or business paying income tax in Delaware. The taxpayer **cannot** claim the tax credit **and** a charitable tax deduction on the same contribution while filing their Delaware income taxes. However, the contribution may be itemized on the Federal return as a deduction and a credit on the Delaware return. Tax credits are generally more beneficial to taxpayers than tax deductions; however, questions about specific contributions should be discussed with a tax professional. Contributions may be made in incremental amounts throughout the contributor's tax year, as long as the cumulative total meets or exceeds the minimum NAA contribution required of an individual or business upon application for NAA credits.

Assuming DSHA determines that the contribution has been made for the community purpose detailed in the application; the taxpayer/applicant, the non-profit neighborhood organization and the Delaware Division of Revenue will receive a NAA Tax Credit Award Letter. The Division of Revenue also requires a completed 2001 AC 0809 form signed by the contributor and DSHA. Upon receipt of the 2001 AC 0809 form, the Division of Revenue will issue Form 700 to be filed with the contributor's Delaware state tax filing. (The Delaware Division of Revenue tax Form 700 will allow the taxpayer to apply credits to any Delaware tax liability over a period of five years, or until the credits are fully utilized before the five-year deadline.)

## ***Qualified Neighborhood Organization***

A qualified "Neighborhood Organization" is any organization performing neighborhood assistance in an impoverished area, or for low- and moderate-income families and holding a ruling from the Internal Revenue Service of the U. S. Department of Treasury that the organization is exempt from income taxation under the provisions of the Internal Revenue Code, Section 501(c)(3) or is a Community Development Corporation, or Community-Based Development Organization as defined below. Examples of Neighborhood Organizations as defined by the act would include non-profit affordable housing development organizations, community centers in low-income areas that have educational programs for children or job training programs for adults, organizations that assist low-income communities develop and preserve businesses.

A "Community Development Corporation" or a "Community-Based Development Organization" is a locally-based, resident-controlled, non-profit organization that plans and implements community economic development projects in impoverished areas or for low- and moderate-income people, and that has a ruling from the Internal Revenue Service of the U. S. Department of Treasury that the organization is exempt from income taxation under the provisions of the Internal Revenue Code, Section 501(c)(3).

## **Qualified Activities**

Contributions made to neighborhood organizations to implement the following types of programs are considered qualified activities:

- Community Services** *(any type of counseling, emergency assistance or medical care furnished to individuals or groups in an impoverished area, or for low- and moderate-income families)*
- Crime Prevention** *(any activity that aids in the reduction of crime in an impoverished area, or for low- and moderate-income families)*
- Economic Development** *(any activity that aids in business development and ownership in impoverished areas, or for low- and moderate-income families)*
- Education** *(any type of scholastic instruction to individuals who reside in an impoverished area, or for low- and moderate-income families that enables them to meet educational requirements for job vacancies)*
- Housing** *(any activity that aids in substantial rehabilitation or new construction of rental or owner-occupied residences for low- and moderate-income families in impoverished areas, or other areas.)*
- Job Training** *(any type of instruction to individuals who reside in an impoverished area or for low- and moderate-income families that enables them to acquire vocational skills, so that they can become employable or be able to seek a higher grade of employment)*

In addition to making the investment for a qualified activity, the NAA contributions also must be made to benefit people who (1) live in impoverished areas, as determined by tracts also known as Qualified Census Tracts or (2) benefit low- and moderate income families. DSHA defines impoverished areas as:

- (1) Qualified Census Tracts where the family income is less than 50% of the area median family income, as determined by HUD.
- (2) Income restricted multi-family housing communities that serve low- and moderate-income families such as those with financing through the Low Income Housing Tax Credit program, those with subsidized rents through project-based Section 8, those funded through HUD programs for low-income seniors and people with disabilities and those with financing through Rural Development.
- (3) Communities targeted by specific government programs for re-investment, such as the Strong Communities and Enterprise Communities, and
- (4) Impoverished areas not identified above may be considered by the DSHA Director upon written request. Low- and moderate-income family means, an individual or family whose total household income **is at or below 80% of the area median family income** as established by the U.S. Department of

Housing and Urban Development (HUD). The 2009 Area Median Family Incomes are as follows:

### 2009 Area Median Family Incomes

Percent of Median Income	New Castle County	Kent County	Sussex County
100%	\$77,800	\$59,500	\$58,600
80%	\$62,240	\$47,600	\$46,880
50%	\$38,900	\$29,750	\$29,300

Appendix B-1 is a map of identified impoverished areas and Appendix B-2 is a list of qualifying census tracts. Applicants can check their census tract online at <http://www.census.gov>.

## Application Process

### Step 1

Non-profit organizations interested in participating in the NAA program must complete Part 1-A of the Neighborhood Assistance Act application. This section asks for information about the organization, its eligibility, the type of neighborhood assistance and the impact on the impoverished area or low and moderate-income people. The second part of the application, Part 1-B, describes the organization and requests information on the activity's budget, financing, goals, time line and proposed use of contributions. Additional attachments must be included: most recent IRS tax return or 990 form (if applicable), most recent 3 years audited financial statements (if available), organization's by-laws, list of board of directors, annual report and 501(c)(3) certificate.

### Step 2

Once Part 1-A and 1-B of the application is received, DSHA staff will acknowledge receipt of the application by sending a letter to the applicant. DSHA staff will review the application to insure that it meets the following criteria:

- Target population is at or below 80% of median family income.
- Organization receiving the contribution qualifies as a neighborhood organization under the Neighborhood Assistance Act.
- The program or activity being supported benefits low- and moderate-income people, or impoverished areas and is in one of the following categories of assistance:
  - Community Services
  - Crime Prevention
  - Economic Development
  - Education
  - Housing
  - Job Training

Upon finalization of the review process, DSHA staff will provide the applicant with a letter either approving the application or if denied, explaining why the application was denied. An applicant whose application is denied because it was determined that it did not meet the threshold criteria, should request technical assistance from DSHA to determine if the application can be revised to meet the threshold criteria.

### **Step 3**

Once an applicant has received a letter from DSHA indicating that the proposed activity meets the threshold criteria, the non-profit organization may submit Application Part 2-A and a fully executed 2001AC form, provided it has a contribution which is eligible for NAA tax credits. Eligible contributions are those that are made directly from a qualified taxpayer to an approved non-profit organization. Non-Profit organizations that receive contributions from a pass through organization (i.e., United Way) are ineligible to receive NAA tax credits. A tax credit award can only be made in the same calendar year in which the contribution is made.

If tax credits are available for the year and the application meets the threshold criteria, DSHA will send a letter notifying the tax credit applicant and the Delaware Division of Revenue that the credits have been awarded. If DSHA receives a qualified NAA application and the fiscal year tax credits are fully expended, DSHA will provide the applicant with a denial letter explaining that tax credits are unavailable. However, after January 1, DSHA will grant provisional approval of eligible donations subject to availability of tax credits after July 1. Credits will be awarded on a first-come first-served basis.

If the contribution is in the form of land, DSHA must be contacted before beginning the NAA application process. DSHA will inspect and research the property to verify that there are no adverse development conditions, such as environmental issues. Tax credits will be awarded on a first-come-first-served-basis.

NOTE: Effective January 4, 2010, Delaware State Housing Authority (DSHA) will begin accepting NAA contribution applications for FY2011. DSHA will issue conditional approvals for contributions for NAA applications on a first-come first-served basis for the first \$250,000 in requests. Since an appropriation of FY2011 tax credits is yet to be determined, DSHA requests non-profits who receive and process NAA contributions to advise contributors that NAA tax credits are contingent upon a State of Delaware budget appropriation of FY2011 tax credits. DSHA will advise approved NAA non-profit organizations after July 1, 2010 of the approved appropriation and availability of FY2011 tax credits.

Assuming a FY2011 appropriation of \$500,000, the remaining balance of \$250,000 will be available after July 1, 2010. \$100,000 of this amount will be set-aside for small to medium non-profits with less than \$1,000,000 in gross receipts, as evidenced by their most recent IRS form 990. Non-profits that meet the definition of a small to medium organization should submit IRS form 990 when submitting a NAA contribution application.

## **Step 4**

The Division of Revenue upon receipt of the completed Form 2001 AC 0809 will issue Division of Revenue Form 700, which along with Form 2001AC will be filed with the Delaware state tax return.

Please see Appendix A (Neighborhood Assistance Act Process Flow Chart).

## **Certification of Neighborhood Assistance Act Tax Credits (Part 2-B)**

This form provides information about the taxpayer making the contribution and certifies that the contribution has been made to the non-profit neighborhood organization. DSHA requests that the non-profit neighborhood organization receiving the contribution also complete the Tax Credit Status Report form 9 months after receiving DSHA's acknowledgement of the Tax Credit award and again when the proposed activity has been completed. The Tax Credit Status Report details how the contribution was used.

## **Compliance Process**

Approximately nine months after the contribution has been certified, DSHA will require the non-profit to complete a compliance report detailing how the contribution assisted them in completing their program activity goals, as well as a brief summary of the program's budget and goals. It is the non-profits responsibility to ensure contributions received are being used for the intended purpose.

## **Denial of Neighborhood Assistance Act Tax Credits**

If DSHA determines that evidence provided does not indicate that the contribution has been made, or that the non-profit has not applied the contribution to the community purpose detailed in the application, DSHA will issue a Denial of Credits Notice. This notice will indicate the reason for denial. The taxpayer applicant will then have 30 days to provide additional documentation to obtain the approval of credits. Furthermore, if an approved non-profit is not able to verify that the donation received has been used to complete their program activity within 9 months, the non-profit may be denied subsequent NAA activity approvals. Exceptions to the 9-month compliance policy are for non-profits whose approved activities include building housing units and or facilities. DSHA will allow up to a five-year period for the non-profit to complete this type of project. Periodic reporting will be required.

## **Appeals**

DSHA will make decisions regarding the award of NAA tax credits based on the threshold criteria described above and not on a competitive basis. If an application is denied, the denial will be based on either a failure to meet the threshold requirements of the program or due to a lack of available tax credits. An applicant can request a meeting with DSHA staff to review the application and its perceived shortcomings. Following such a meeting, the applicant may make adjustments and resubmit the application.

## **Advisory Committee**

The NAA Advisory Committee will be selected by the DSHA Director and serve a two-year term. The committee will meet at least once annually to review the performance of the NAA Program and make recommendations on improvements. Advisory Committee members are expected to be knowledgeable about the program to market the tax credit to taxpayers and non-profit neighborhood organizations. Membership on the Advisory Committee will include people from the business and non-profit sectors, as well as other interested parties.

## **Glossary of Terms**

- (1) **Community Development Corporation and Community-Based Development Organization:** Any locally-based, resident-controlled, non-profit organization that plans and implements community economic development projects in impoverished areas, or for low- and moderate-income people and that holds a ruling from the Internal Revenue Service of the United States Department of the Treasury that the organization is exempt from income taxation under the provisions of the Internal Revenue Code, section 501(c)(3).
- (2) **Community Service:** Any type of counseling, emergency assistance, or medical care furnished to individuals or groups in an impoverished area, or for low- and moderate-income families.
- (3) **Crime Prevention:** Any activity that aids in the reduction of crime in an impoverished area, or to assist low- and moderate-income families.
- (4) **Economic Development:** Any activity that aids in business development and ownership in impoverished areas.
- (5) **Education:** Any type of scholastic instruction to individuals who reside in an impoverished area or for low- and moderate-income families that enables them to meet educational requirements for known job vacancies.
- (6) **Housing:** Any activity that aids in substantial rehabilitation or new construction of rental or owner-occupied residences for low- and moderate-income families in impoverished areas or for other areas.
- (7) **Impoverished Area:** Any clearly defined, economically distressed urban or rural area in Delaware that is certified as such by the Delaware State Housing Authority. Such certification shall be made on the basis of federal census studies and current indices of social and economic conditions.
- (8) **Job Training:** Any type of instruction to individuals who reside in an impoverished area or for low- and moderate-income individuals that enables them to acquire vocational skills, so that they can become employable or be able to seek a higher grade of employment.

- (9) **Low- and Moderate-Income Family:** An individual or family whose total household income is at or below 80% of the **Area Median Family Income** as established by the U.S. Department of Housing and Urban Development (HUD).
- (10) **Neighborhood Assistance:** The furnishing of financial assistance, labor, material and technical advice to aid in the physical, economic and community improvement of any part or all of an impoverished area, or to assist low- and moderate-income families through the provision of community services, crime prevention, economic development, education, housing, and job training.
- (11) **Neighborhood Organization:** Any organization performing neighborhood assistance in an impoverished area or for low- and moderate-income families and holding a ruling from the Internal Revenue Service of the U. S. Department of Treasury that the organization is exempt from income taxation under the provisions of the Internal Revenue Code, or any community development corporation or community-based development organization as defined in this section.
- (12) **Person or Persons:** Shall include any individual; any form of company or corporation, which is lawful within Delaware (including limited liability companies and S corporations), any form of partnership, which is lawful within Delaware (including limited liability partnerships); and any trust or estate.
- (13) **Substantial rehabilitation:** Work involving at least two major systems to bring a house up to building code standards.

## **Marketing**

Marketing of the NAA Tax Credits has been identified as critical to the success of the program. Marketing will target individuals and business taxpayers, along with non-profit organizations which already have relationships that could be expanded through use of the NAA tax credit but not limited to these groups. The goal is to make the program widely known in many venues.

### ***Marketing to Businesses***

DSHA will develop a short presentation on the NAA, which focuses on special points of interest to businesses. Staff will contact Rotary Clubs, Chambers of Commerce and other business groups and ask them to provide this presentation to their membership.

In addition:

- DSHA will develop a brochure that can be handed out, so that those interested can contact DSHA staff for additional information.
- DSHA will develop an advertisement to run in business publications.
- DSHA staff will work with Delaware business organizations to identify enthusiastic partners who will assist DSHA in getting the word out to other business leaders.

- DSHA staff will work to develop a relationship with the Delaware Society of Certified Public Accountants and encourage outreach to tax advisors and preparers throughout the State to make them aware of the NAA.
- DSHA will develop a NAA section on the DSHA website.

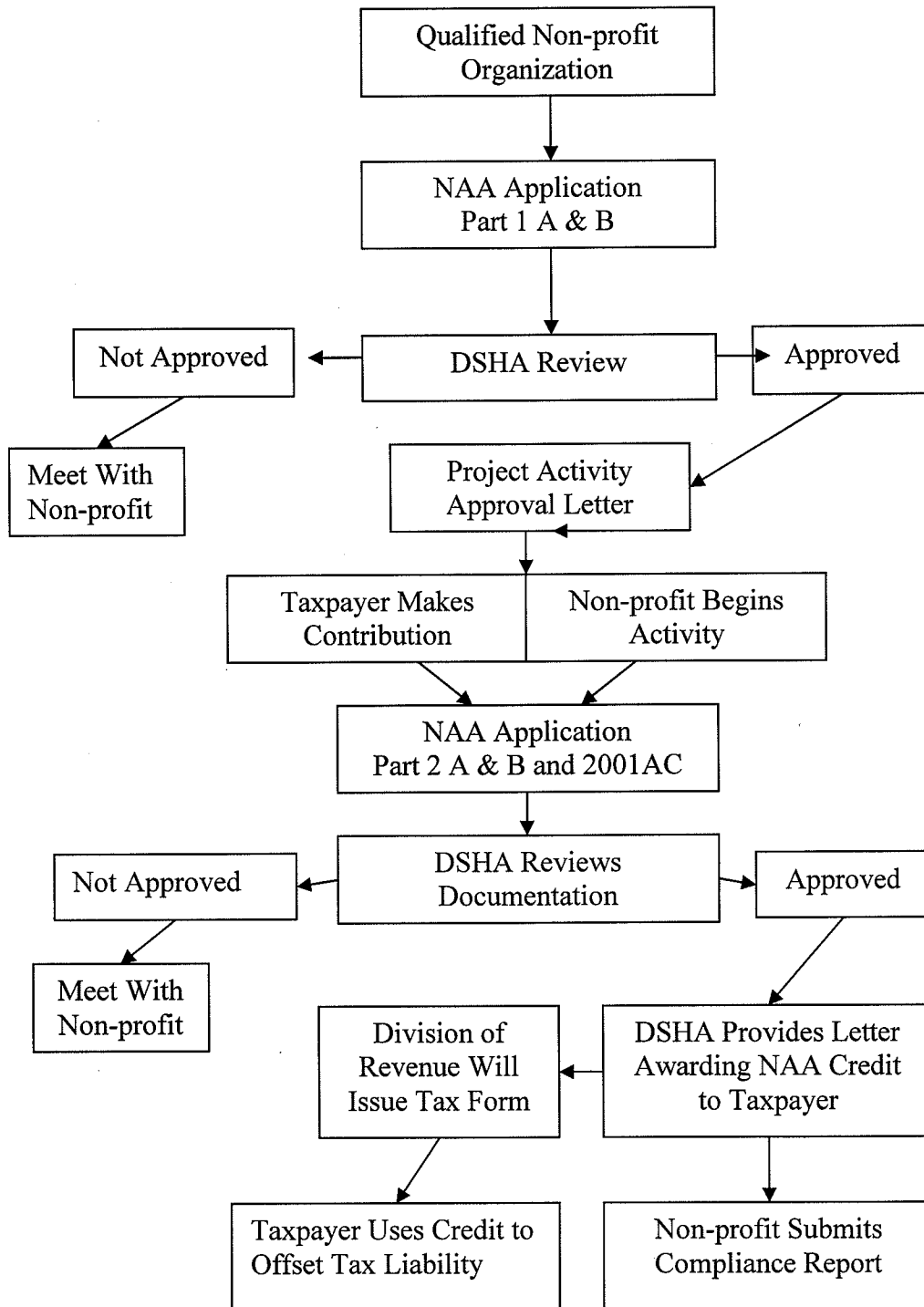
### ***Marketing to Individuals***

DSHA will disseminate NAA marketing materials in as many venues as possible and discuss the program with interested individuals. DSHA will identify opportunities for marketing the NAA through business conferences and other events.

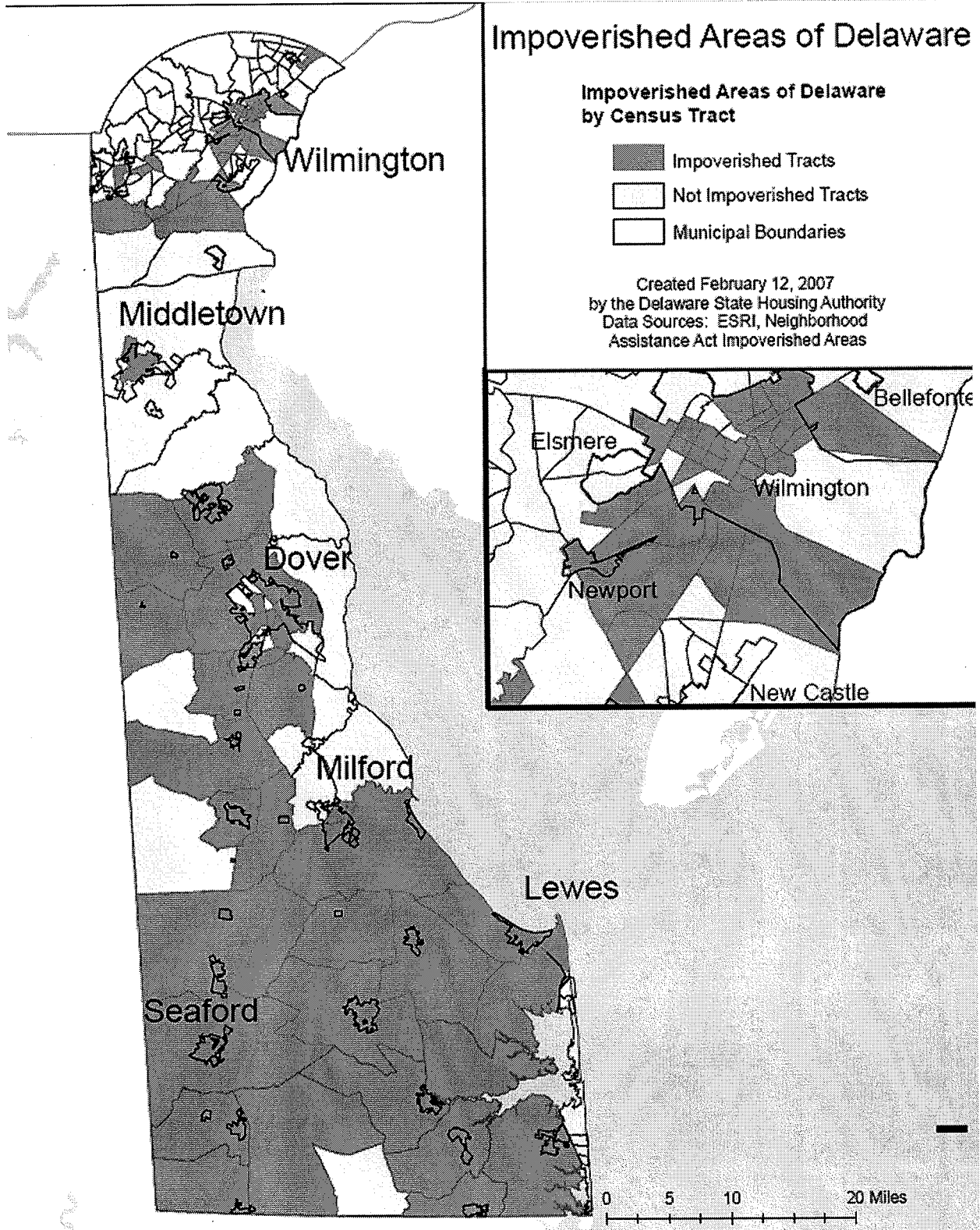
### ***Marketing to Non-Profits***

DSHA will provide NAA information to non-profit organizations that are most likely to benefit from the program. DSHA will provide a detailed overview of the program and periodically engage NAA participants in identifying program improvements, in identifying possible contributors and in marketing the program to those contributors. In addition, DSHA staff will provide technical assistance to non-profit organizations in preparing applications, if needed.

## Neighborhood Assistance Act Process Flow Chart



Appendix B-1



Appendix B-2

**IMPOVERISHED CENSUS TRACTS – DELAWARE**

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**New Castle County**

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001	007	019	101.01	141	153
002	008	020	103	145.02	154
003	009	021	10	148.04	155
004	014	022	125	149.01	162
005	015	023	128	149.02	163
6.01	016	024	129	149.03	167
6.02	017	026	140	152	

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**Kent County**

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401	408	413	418	422	429
402	410	414	419	425	430
405	412	417	421	428	

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**Sussex County**

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501	504	507	510	515	519
502	505	508	513	517	
503	506	508	514	518	

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**Finding Your Census Tract**

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1. Go to <http://factfinder.census.gov>
2. Click on "street address" under "Address Search" at the bottom of the menu on the left side of the page.
3. Enter your street address and click "Go"
4. The census tract of the address you entered will be on the third line of the result.
5. To see a detailed map of the area, click "Map It".