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A Summary of Act 1217
The Family Savings Initiative Act

During the 1999 legislative session, Senator Jay Bradford (Pine Bluff) and Representative Michael Booker (Little Rock) co-sponsored a bill entitled the Family Savings Initiative Act. On April 9, that bill became Act 1217. You can view the full text of the Act on the Arkansas General Assembly's home page, which can be found at *www.arkleg.state.ar.us*. The following is a summary of the Act.

THE FAMILY SAVINGS INITIATIVE ACT

- *Creates an IDA Demonstration Project*
- *Helps low-income and low-assets families to buy a house, start a business, or get post-secondary education.*
- *Matches individual savings at a rate of $3 for every $1 saved*
- *Provides economic and financial literacy training*
- *Funds the demonstration with TEA funds and a tax credit*

WHAT DOES THE FAMILY SAVINGS INITIATIVE ACT DO?

The Family Savings Initiative Act establishes an Individual Development Account (IDA) demonstration project that will be operated by the Department of Human Services (DHS). The purpose of the Act is to provide low-income and low-asset families an opportunity to accumulate assets; to facilitate and mobilize savings; to promote home ownership, microenterprise development, post-secondary education, saving for retirement, and car ownership; and to stabilize families and build communities.

WHO IS ELIGIBLE TO OPEN AN INDIVIDUAL DEVELOPMENT ACCOUNT?

Individuals who are residents of Arkansas may submit an application to a non-profit organization that has been approved by DHS to operate an IDA program. The individual's household income must be less than 185% of the Federal poverty level, and their household net worth must be less than $10,000, disregarding the primary dwelling unit and one car. Under 1999 Federal poverty guidelines, 185% of the poverty level for a family of three is $25,678.

FOR WHAT PURPOSES MAY INDIVIDUAL DEVELOPMENT ACCOUNTS BE USED?

IDAs may be used to buy a first home or make repairs or improvements to a home, start a small business, pay for post-secondary education for the saver or an immediate family member, start an Individual Retirement Account (IRA) or education IRA, or purchase or repair an automobile. Match funds will be paid directly to the individual or organization to which the amounts are due (e.g., the seller of the house, the community college or university, or the business capitalization account).

Several qualifications apply to these uses. For IDA matches funded with Temporary Employment Assistance (TEA) funds, uses are limited to homeownership or repair, small business start-up, or post-secondary education. IRAs or transportation expenses are not allowable uses for matches made with TEA funds. A second qualification is that when match funds can be used for transportation, IDAs for transportation are only allowed if the individual is also saving for another allowable purpose.

AT WHAT RATE WILL INDIVIDUAL DEVELOPMENT ACCOUNTS BE MATCHED?

Each dollar that an individual places into an IDA will be matched by three dollars. The amount of matching funds is capped at $2000 per individual and $4000 per household.

WHAT KINDS OF ORGANIZATIONS ARE ELIGIBLE TO APPLY TO DHS TO OPERATE IDA PROGRAMS?

Nonprofit organizations are eligible to apply. Proposals will be evaluated based on geographic diversity and the organization's ability to market the project to potential account holders; ability to leverage additional matching and operating funds; ability to provide safe and secure investments for individual accounts; overall administrative capacity; capacity to provide financial counseling and other related services to potential participants; capacity to provide other activities designed to increase the independence of individuals and families through home ownership, small business development, education and training, or saving for retirement; and operating costs.

WHAT RESPONSIBILITIES WILL THE ORGANIZATIONS HAVE?

The responsibilities of the nonprofit organizations will include marketing the program to potential participants, soliciting matching contributions, counseling project participants, conducting economic and financial literacy training, conducting training around the specific uses of the IDAs, and conducting required verification and compliance activities.

WHAT ROLE DO FINANCIAL INSTITUTIONS PLAY?

Financial institutions hold the Individual Development Accounts. The nonprofit organization serves as an intermediary between the individual and the financial institution. The Act defines financial institutions as organizations authorized to do business under state or federal laws relating to financial institutions and includes banks, trust companies, savings banks, building and loan associations, savings and loan companies or associations, and credit unions.

HOW IS THE DEMONSTRATION FUNDED?

The Act specifies that Transitional Employment Assistance (TEA) funds are to be used to fund the demonstration. It also provides for a tax credit to help raise matching funds.

HOW DOES THE TAX CREDIT WORK?

The law provides a tax credit to help the nonprofit organizations raise matching funds from individuals and private companies. A credit is allowed against income tax liability equal to 50% of the amount of matching funds contributed to the nonprofit organization up to a maximum credit of $25,000 per year.

The amount of the credit that may be used in a tax year is equal to the lesser of $25,000 or the amount of tax due. Unused credits may be carried forward for 3 years. To claim the credit, the taxpayer must notify the nonprofit organization of the intent to make a contribution and the amount of the contribution. The nonprofit must notify the Department of Finance and Administration (DFA) and request a certification of the amount of tax credit to which the taxpayer is entitled. The taxpayer then files the certification with the taxpayer's income tax return. The total amount of tax credits is capped at $100,000 per year.

ARE IDAS COUNTED AS INCOME?

Interest or dividends earned on an IDA account and matching funds deposited into an IDA account are exempt from income for purposes of calculating state income tax liability.

HOW DOES THE IDA AFFECT ELIGIBILITY FOR OTHER PROGRAMS?

Funds deposited in an IDA will not be counted as income, assets, or resources of the individual in determining eligibility for assistance or services from any federal, federally assisted, state, or municipal program based on need.

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